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LCBO

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ANNUAL REPORT 2001-2002

Our seventh straight  
**record year**

CELEBRATE  
*seventy-five years*

# The Annual Report

Under the *Liquor Control Act*, we are required to prepare an annual report to the Minister of Consumer and Business Services. The Minister submits the report to Cabinet and tables it in the Provincial Legislature. This document is first and foremost a formal record of the LCBO's financial performance for the past fiscal year; it also provides an overview of the Ontario beverage alcohol marketplace.

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## Credits

The LCBO wishes to thank the Office of the Provincial Auditor and the members of the Audit and Governance Review Committee of the Board for their assistance in preparing this document.

Produced by LCBO Corporate Communications.

Financial information prepared by LCBO Financial Planning & Development. French adaptation by LCBO French Language Services.

Ce rapport est également publié en français sous le titre : Rapport annuel de la LCBO 2001-02.

## Members of the LCBO Board (during fiscal 2001-02)

Andrew S. Brandt, *Chair and Chief Executive Officer*

John S. Lacey, *Vice Chair; Member, Audit and Governance Review Committee*

Thom A. Bennett, *Member; Chair, Audit and Governance Review Committee*

Gayle Christie, *Member; Member, Audit and Governance Review Committee*

R.A. (Dick) Dolphin, *Member; Chair, Audit and Governance Review Committee (died December 5, 2001)*

John C. Hopper, *Member*

Merle A. Jacobs, *Member*

Perry Miele, *Member (appointed April 3, 2002)*

Bob Peter, *President and Chief Operating Officer*

## Letter of Transmittal

The Hon. Tim Hudak  
*Minister of Consumer and Business Services*

Dear Minister,

I have the honour to present you with the 2001-02 Annual Report of the Liquor Control Board of Ontario.

Respectfully submitted,



Andrew S. Brandt  
*Chair and Chief Executive Officer*

## In Memoriam

Richard A. (Dick) Dolphin  
1940-2001

Dick Dolphin was a Member of the LCBO Board from 1997 until his untimely death in December 2001. During his tenure on the LCBO Board, Dick was a great supporter of upgrading LCBO stores, and improving customer service and the overall shopping experience. As Chair of the LCBO Board's Audit and Governance Review Committee, he helped ensure taxpayers got good value for their money. As a caring member of the community, he supported LCBO efforts to raise funds for good causes and to serve the public responsibly. He is missed by all who knew him.





## MESSAGE FROM THE MINISTER



As Minister of Consumer and Business Services, with responsibility for the LCBO, I am pleased to provide you with the LCBO Annual Report for the fiscal year 2001-02.

It is the mandate of the LCBO to provide excellent service and product selection to its customers; to maximize its dividend to the taxpayers and Government of Ontario; and to take a leadership role in promoting the socially responsible use of beverage alcohol. As this report documents, the LCBO fulfilled its mandate in these key areas in fiscal 2001-02.

Service continued to improve as the LCBO upgraded stores to provide consumers with more appealing environments in which to shop; tailored product assortments in many stores to better match local tastes; and introduced new programs aimed at reducing product handling, thus freeing up Retail staff to spend more time helping customers. The LCBO also developed and began implementing a plan to improve service to customers in rural areas through an expansion of its agency store program.

Dividend transfers grew to a record \$905 million, the LCBO's seventh straight record year. These funds – which do not include an additional \$275 million in Provincial Sales Tax – help support social programs, services and public infrastructure projects that benefit all taxpayers. The LCBO improved its financial performance in part by controlling operating expenses, which declined as a percentage of net sales from 17.1 to 16.7, and improving productivity at both the store and warehouse levels.

Commitment to social responsibility was evident on a number of fronts. In fiscal 2001-02, LCBO staff challenged more than 1.2 million would-be customers who appeared underage and could not provide valid ID; who appeared intoxicated; or who were believed to be buying alcohol for minors or intoxicated people. They refused service to nearly 77,000 people; 66 per cent of refusals were for age-related reasons. Corporate and employee fundraising efforts aided organizations such as MADD Canada; powerful TV advertising helped prevent impaired driving; and \$4 million went to support municipal Blue Box programs. LCBO also helped protect the health of Ontario consumers through extensive testing at its Quality Assurance laboratory in Toronto, which ensures products sold in stores are safe to drink.

As the MPP for Erie-Lincoln, in the heart of Ontario wine country, I have developed a great appreciation of Ontario wines and the skill and passion with which they are made. I have been pleased to discover that the LCBO shares my enthusiasm for Ontario wines and works with our government and the Ontario wine industry to showcase these fine products. Through in-store promotions, a greater selection of "craft" wines from smaller producers and enhanced VQA displays, LCBO complements the efforts of our government and the Wine Council of Ontario to increase consumer awareness and appreciation of Ontario's outstanding wines, as well as our domestic beers and spirits.

Taxpayers, citizens and users of government services expect these services to be delivered in the most efficient manner possible. As Minister responsible, I, along with my colleagues in government and staff, will continue to work closely with the LCBO Board, employees and trade partners to ensure this public asset is well managed and the Ontario public is well served.

Tim Hudak  
Minister  
Ministry of Consumer and Business Services



## MESSAGE FROM THE CHAIR AND CEO



As fiscal 2001-02 drew to a close, the LCBO was preparing to mark its 75th anniversary, which fell on June 1, 2002. Looking back at archival material relating to the creation of the Liquor Control Board of Ontario in 1927 – old newspaper clippings, photographs and annual reports – I was struck by how far the LCBO and the province of Ontario have come in 75 years.

The LCBO was created primarily to control the sale and distribution of alcohol as Ontario emerged cautiously from the temperance era. Control was the operative word. Alcohol was viewed suspiciously, even distastefully, by many.

As was noted in the 1929 LCBO Annual Report: *"The sin of drunkenness is still with us and probably will remain with the host of other sins and crimes that scourge humanity just so long as human nature is what it is."*

The first 16 stores that opened on June 1, 1927, were located primarily on back streets – a pattern that would continue for decades. Most were drab and resembled jails more than stores.

Product selection was limited and kept in back rooms. Purchases were wrapped in brown paper bags. Clerks had no product knowledge training and were forbidden to recommend products.

Citizens were issued permits and their purchases were recorded, the better to alert staff to possible excess.

Sales in the first full fiscal year (ending October 31, 1928) amounted to \$34 million, yielding a dividend to the province of \$7.2 million.

Contrast that if you will with today's LCBO....

Stores are bright, clean and inviting, winning awards in national and international design competitions. Guided by extensive market research, we ensure they are well located, highly visible and accessible, with services customers have told us they want.

Our friendly, helpful employees have extensive training in product knowledge and customer service, and can help customers find products to suit every taste and budget. They can suggest food and drink matches and help customers plan events large and small.

Products are well displayed, often accompanied by informative tasting notes. We offer AIR MILES Rewards, limited time offers and value-adds on certain products, and accept credit and debit cards. Stores are open on Sundays, with extended hours in many locations. We publish an acclaimed consumer magazine, *FOOD & DRINK*, and bring to life in our stores the entertaining ideas it offers.

Our selection is far broader than it used to be. The first product guide we issued in 1927 was 13 pages long; the most recent, Summer 2002, lists 84 pages of products, sourced from more than 60 countries. Our domestic selection is far more varied too, thanks to the impressive growth and development of the Ontario wine industry.

We don't control the sale of beverage alcohol as rigidly as we did in 1927. We now promote the moderate consumption of alcohol in the context of entertaining and a balanced lifestyle. But we are no less vigilant when it comes to sales to minors or to people who appear intoxicated. As you will read elsewhere in this report, we challenged more than 1.2 million would-be customers because they appeared underage or intoxicated, or were believed to be buying for underage or intoxicated persons. We also work in many ways, and with many partners, to promote responsible drinking and curb impaired driving.

I am equally pleased to note how things have changed on the business side. Once a hidebound, lumbering bureaucracy – which as recently as 1988 owned nary a computer – the

LCBO has reinvented itself as a dynamic and innovative retailer, a provincial government enterprise that is run in a very businesslike fashion.

We constantly look for ways to become more efficient and reduce operating expenses. We use the latest technology to improve our ordering practices, automate warehouse operations and flow product more quickly through the system. We have embraced private-sector disciplines such as strategic planning and scorecards to gauge and improve our performance in key areas.

Thanks to the efforts of some 6,500 staff, we grew our sales in fiscal 2001-02 to just under \$3 billion, and are almost certain to break that mark in fiscal 2002-03. And we recorded our seventh straight record dividend – \$905 million, not including taxes. If you add the Provincial Sales Tax, federal excise taxes, customs duties, GST and municipal taxes we remitted to all levels of government, our contribution totalled more than \$1.55 billion, which supports a wide range of important government social programs, services and capital projects.

That is certainly a long way from 1927.

Much of the credit for the LCBO's transformation goes to a man who retired at the end of 2001 – Chief Operating Officer Larry Gee. Larry spent his entire career in retail, coming to us after some 25 years with Dominion Stores. More than any other individual, he was responsible for turning the LCBO from a control-oriented distributor to a customer-focused retailer, where shoppers could come in search of entertaining and gifting ideas. We changed more in the 13 years Larry was with us than in the 60 years before he arrived, and we and our customers owe him a great debt of thanks for his vision and determination to achieve it.

We are fortunate indeed to have as our new President and COO a man of equal retail experience: Bob Peter, the former President of the Bay. Bob is a strong and capable leader, with clear ideas as to how to continue improving LCBO operations, which he shares on the following page. He is dedicated to building on the success the LCBO enjoyed under Larry Gee, and I will assist him in succeeding at that goal.

As entertaining as it has been to look back on the LCBO's past – and Ontario's – it is the future that I would like to reflect on in closing.

The LCBO has a dedicated and knowledgeable workforce, which ratified in July a new collective agreement that was fair, reasonable and fiscally prudent. Together, we will continue to improve customer service; upgrade store environments; improve efficiency wherever possible; and offer a product assortment that is broad, with a consistent core selection of the most popular brands, yet tailored to local tastes. We will strive to meet and exceed the expectations of our customers, our partners in social responsibility and our owners: the government and taxpayers of Ontario.



Andrew S. Brandt  
*Chair and Chief Executive Officer*  
*Toronto, Ontario*  
*August 2002*



## MESSAGE FROM THE PRESIDENT AND COO



I came on board at a very exciting time in LCBO history. My first day on the job – November 5, 2001 – coincided with the opening of the 2001 Strategic Management Conference, an annual event that brings together the most senior managers in the organization to gauge LCBO's progress against its long-term strategic plan and, in this case, to lay the groundwork for the next five-year plan. (For more on this, please see page 19.)

The more I observed, the more I came to appreciate how far the LCBO has come over the past 11 years, led by Chair and CEO Andy Brandt and by my predecessor as Chief Operating Officer, Larry Gee.

With the support of a diligent and involved Board, they and the employees of the LCBO have fashioned a remarkable success story, turning a staid bureaucracy into a dynamic retailer. Having spent more than 30 years in Canadian retail, I can tell you the LCBO is closely watched by many other major corporations, who aren't beyond borrowing ideas from this innovative government enterprise.

In the weeks following the conference, I visited stores, warehouses and offices across the LCBO network to learn first-hand what was working well and what could be enhanced. Everywhere I went I was impressed by the knowledge and dedication of our employees, by their commitment to the community and public they serve, and by their willingness to embrace and implement change.

While much has been done since the late 1980s to improve the LCBO shopping experience, it was clear there was room for improvement in such areas as inventory management and product flow.

In too many stores and warehouses, stock on hand exceeded what might be needed in weeks or even months ahead. Orders were not well aligned with highly predictable sales patterns, with its peaks at Christmas and Easter. As a result, LCBO was paying needlessly high costs to store excess inventory, placing pressure on warehouse space, and forcing Retail staff to spend too much of their time moving product around back rooms.

We are now working hard to reduce excess inventory and improve the flow of product throughout the supply chain. Web-based ordering software, for example, is helping stores and category managers reduce back-room inventory significantly, while keeping shelves and stores ready for business. (For more on this initiative, please see page 35.)

As a result of these early efforts, year-end inventory was down from \$260.6 million in 2000-01 to \$226.3 million in 2001-02. Total inventory turns rose from 5.3 in 2000-01 to 5.9 in 2001-02, surpassing the target of 5.5. And this is just the beginning.

To further increase inventory efficiencies, we will ensure all stores have a core assortment of top-selling brands, along with a portfolio of products tailored to local tastes. We are also looking for other ways to increase efficiency and reduce operating costs. For example, we are helping store managers to better match staffing levels in retail stores to customer traffic patterns.

One thing our stakeholders can be sure of: no matter how far LCBO has come in the past 75 years, its employees will never rest on past success. We take nothing for granted. We will continue to identify and act on every opportunity to improve our operations and efficiency, so that we remain a leader in customer service and social responsibility, and one of Ontario's greatest revenue contributors.

Bob Peter  
President and Chief Operating Officer  
Toronto, Ontario  
August 2002



# CORPORATE GOVERNANCE

## Serving our customers and stakeholders

The mission of the Liquor Control Board of Ontario (LCBO) is to be a customer-intense, performance-driven and profitable retailer of beverage alcohol, supporting the entertaining and responsible use of our products through enthusiastic, courteous and knowledgeable staff.

Our customers are the people who buy our products and services. Our stakeholders include the people of Ontario, their elected officials, our employees, our trade partners, and groups that share our concern for public safety. To serve their interests, we:

- deliver quality products and services at competitive prices
- distribute our products and services through a variety of retail formats and other sales channels, such as catalogues
- promote the responsible use of alcohol
- implement policies aimed at ensuring our workplaces are safe and free of harassment or discrimination
- control the importation, transportation, warehousing and sale of liquor outside of licensed premises, together with quality assurance and pricing, in a fair and impartial manner. Regulatory responsibility for Ontario winery retail stores, Beer Stores, on-site brewery and distillery retail stores, and liquor delivery – previously held by the LCBO – was transferred to the Alcohol and Gaming Commission of Ontario effective July 3, 2001.

To fulfill our responsibilities to the government and people of Ontario, we:

- develop and implement programs and services aimed at deterring the sale of beverage alcohol to persons who cannot provide valid proof of age, who appear intoxicated, or who are believed to be buying for either of these parties
- maximize dividends to the Government of Ontario
- enhance the LCBO's value to the Government of Ontario
- manage the LCBO's business risks.

## What is corporate governance?

Corporate governance means the processes and procedures a corporation uses to manage its business and affairs to enhance shareholder value. It includes ensuring the financial viability of the business, and the corporation's positive relationship and dealings with stakeholders.

As an operational enterprise of the provincial government, we are not required to disclose our corporate governance practices, as are companies listed on the Toronto Stock Exchange. We believe, however, that effective corporate governance and accountability are essential to fulfilling our mandate, and have included this section to increase understanding of how we are governed.

Members of LCBO's Board have responded to the need to establish forward-looking policies for corporate governance and to monitor these policies to ensure their effectiveness. The LCBO strives to meet the highest standards of both corporate governance and disclosure.

## The Board

The mandate of the Board is to supervise the business affairs of the LCBO. Among its most important responsibilities are:

- ensuring that the LCBO provides high quality service to the public
- developing and approving the strategic plan and monitoring management's success in meeting its business plans
- approving annual financial plans
- ensuring that the organization remains financially sound
- assessing and managing business risks
- submitting an annual financial plan to the Minister of Consumer and Business Services
- ensuring the organization has communications programs to inform stakeholders of significant business developments
- ensuring that the LCBO performs its regulatory role in a fair and impartial manner.

## Appointment of Members to the Board

Members of the Board are appointed by the Lieutenant-Governor, through Orders-in-Council, on the recommendation of the Premier and Minister of Consumer and Business Services. Members are appointed for a term of up to five years.

The LCBO provides new Members with a comprehensive orientation program, which includes information about its business operations, current strategies and issues, as well as visits to LCBO facilities. New Members also meet with senior management.

## Responsibilities of Board Members

Each Board Member has individual responsibilities for corporate governance, including:

- acting honestly and in good faith in making decisions with a view to the best interests of the LCBO and all its stakeholders
- overseeing the management of the business and affairs of the LCBO
- avoiding conflicts of interest. Board Members may not enter into arrangements with the LCBO for personal gain
- having adequate knowledge of the LCBO's business, how it is organized, and how it functions
- attending Board meetings and seeking professional advice where necessary
- exercising judgment independent of management
- providing guidance on policy development.

## The strategic planning process

Since 1987, the LCBO has had a five-year strategic planning process. The process begins with an annual strategic planning conference whose purpose is to help define priorities and goals over the five-year period and shape our efforts over the shorter term. The Board approves the corporate strategies and reviews the objectives developed by each division to achieve

them. Performance appraisals are tied to corporate and departmental business plans: every employee is assessed by how well he or she helps the LCBO achieve its objectives.

The strategic plan is supported by our five-year capital plan. For further information, please see page 19.

## Audit and Governance Review Committee

The Audit and Governance Review Committee is composed of three Board Members elected annually by the Board. The Committee ensures the reliability and accuracy of the LCBO's financial statements, helps co-ordinate and improve its internal control functions, reviews and advises on possible changes to the LCBO's corporate governance policies and practices, and ensures that the LCBO adheres to sound corporate governance principles. The Committee:

- monitors the Board's activities and operations
- reviews the LCBO's policy and procedures manuals to ensure that they describe adequate and commercially reasonable procedures and activities and set out appropriate control and management processes
- reviews the LCBO's strategic planning process and the appointment, training and monitoring of the performance of its senior management
- reviews the scope of the responsibilities of the LCBO's Chair and CEO and the Members of the Board and the limits of senior management responsibility and makes recommendations to the Members of the Board accordingly
- advises and counsels the LCBO General Audit Department
- in conjunction with the LCBO General Audit Department, reviews the LCBO's internal control system, internal compliance audits and the annual budget, and makes recommendations as required
- identifies the principal risks facing the business and reviews systems to manage these risks
- acts as a liaison among the Board, the LCBO's General Audit Department and the Provincial Auditor
- oversees the production of the Annual Report.

The Committee meets at least twice a year.

## Ethics and business conduct

The Board is responsible for establishing and monitoring a system for corporate governance, and for administering and enforcing a code of conduct for business ethics.

Following a review of the LCBO's corporate governance practices, in March 1998, the Board approved a new policy for the conduct of the business of the corporation, including terms of reference and practices for the Board and for all committees of the Board. In April 1998, the Board approved a new Code of Business Conduct, with policies for conflict of interest; confidentiality; the outside activities of employees, officers and Members of the Board; gifts and entertainment; and human rights.

## Health and safety

The Board approves an annual health and safety policy, and ensures that regular meetings are held by joint bargaining unit and management health and safety committees. As part of its monitoring of the policy, the Board ensures it is kept informed of workplace health and safety issues. Reports are provided to the Board monthly.

## Store Planning and Development Committee

This is a staff committee that reports to the Board. It reviews all real estate and leasing decisions and makes recommendations to the Board. The Committee meets monthly.

## Listings Appeals Committee

The LCBO has a Listings Appeals Committee that reviews appeals of denials of listing applications and decisions as to products that are delisted from sale through the LCBO.

## Governance of the LCBO differs from private-sector corporations

In public companies, boards of directors usually have a number of key responsibilities that they perform on behalf of shareholders to ensure an effective system of accountability. In the case of the LCBO, an operational enterprise of the Ontario government, several of these functions are performed directly by government. This includes appointment of the Chair and CEO. In making major policy decisions, the Board often invites input from the provincial government and other stakeholders and takes into account government policy objectives.



Just after 10 a.m. on June 1, 1927, Mr. W. E. Hurst stepped up to the counter of LCBO Store 1, then located at the corner of Church and Lombard streets in downtown Toronto, and plunked down a gold five-dollar coin.

With that first transaction, Ontario's temperance era had come to an end. The Liquor Control Board of Ontario was officially open for business.

The rest, as they say, is history. A proud history: 75 years of responsible and profitable service to the people of Ontario, culminating in seven straight record dividend transfers to support programs and services that benefit all taxpayers.

Following are some of the highlights in the transformation of the LCBO from its early days as a control-oriented distributor to an innovative, caring retailer that helps people across Ontario entertain easily and responsibly.

- **1927** – The newly established LCBO opens 16 stores, three mail-order departments and four warehouses. Liquor permits (costing \$2) are required to purchase alcohol. The first 16 stores are in Toronto, Hamilton, London, Ottawa, Thunder Bay, Brockville and Kitchener. A total of 86 stores are opened before the end of the year.
- **1934** – Hotel beverage rooms are licensed by LCBO to sell beer; dining rooms are licensed to sell wine and beer, but not liquor.
- **1935** – Ontario wineries are allowed to operate one off-premise retail store.
- **1947** – The Liquor Licence Board of Ontario (now the Alcohol and Gaming Commission of Ontario) takes over responsibility for regulating licensed premises from LCBO.
- **1961** – Liquor permits to purchase alcohol are abolished. Customers are still required to fill out purchase slips when buying alcohol.
- **1962** – New LCBO agency store program authorizes local retailers in Northern Ontario to sell beverage alcohol in communities too small to support regular liquor or beer stores.
- **1965** – LCBO introduces its first wine consultants (now product consultants) in selected stores.
- **1968** – LCBO training centre conducts first two-day wine-tasting seminar.
- **1969** – First self-serve LCBO store opens in Weston, a suburb of Toronto.
- **1971** – 40-oz. bottles, 80-oz. wine jugs and 2-oz. miniature bottles are introduced. Legal drinking age in Ontario is lowered to 18 from 21.
- **1972** – Rare Wines and Spirits store, the forerunner of VINTAGES, opens at LCBO's Toronto Warehouse on Freeland Street.
- **1975** – LCBO incorporated as a Crown corporation.
- **1978** – Legal drinking age in Ontario is raised to 19.
- **1985** – LCBO introduces its first merchandising program. The Innovate, Merchandise and Generate Enthusiasm (IMAGE) program encourages suppliers to promote products with in-store displays. LCBO's largest warehouse, Durham Logistics Facility, opens. The first VINTAGES outlet opens at LCBO's Queens Quay Store in Toronto. It is the first LCBO outlet to offer product samplings.
- **1986** – LCBO unveils its first corporate logo.
- **1987** – Regular product samplings introduced at selected LCBO stores throughout the province. LCBO applies customer research for the first time to improve its retail network, product marketing and customer service.
- **1988** – LCBO launches a strategy to change from control-based distributor to customer-focused retailer following a management study. LCBO introduces free customer magazine, *LCBO Today*, to provide regular information on products and services.
- **1989** – The new \$1.7-million LCBO Quality Assurance laboratory opens. LCBO consignment warehouse is established to help agents import products not available at LCBO, for sale to licensed establishments and individuals. Province-wide, bilingual, toll-free LCBO Infoline (1-800-ONT-LCBO) is launched to answer public inquiries about LCBO operations and services.
- **1990** – First Ontario VQA (Vintners Quality Alliance) wines appear in LCBO stores, signifying a new era of quality for domestic wine industry.
- **1991** – Top 140 LCBO stores are revamped to make them more customer-friendly and portray a consistent corporate image. A new computer system links all LCBO stores, warehouses and Head Office and a computerized inventory and cash register system is introduced throughout the LCBO network.

- **1992** – First LCBO mini-store opens at Toronto's First Canadian Place. Refrigerated displays offering chilled products are introduced in LCBO stores. Tutored tastings are offered in selected stores. LCBO forms illegal alcohol task force to combat illicit alcohol.
- **1993** – New LCBO Shop the World marketing program presents major in-store thematic promotions throughout the year. The LCBO introduces its Value-Add program allowing suppliers to sell products with add-ons such as miniature bottles and accessories. *LCBO Today* is revamped and renamed *FOOD & DRINK*, offering more food and beverage information and responsible hosting tips.
- **1994** – LCBO tests debit/credit card purchases in selected stores. LCBO introduces three-level product knowledge training program for its employees. New *VINTAGES Classics Catalogue* accepts phone or fax orders for world's finest and rarest wines and spirits. In an LCBO survey, customers rate staff friendliness and helpfulness 9.1 out of 10. Last counter-service stores are converted to self-serve operations.
- **1995** – LCBO introduces Limited Time Offer program, offering savings on selected products. *Financial Post Magazine* ranks LCBO as Canada's most profitable company. The first LCBO store to feature a demonstration kitchen opens in the Manulife Centre in Toronto, featuring many aspects of the "infotainment" the LCBO now offers. An LCBO ethnic kiosk opens in Markham to serve the Chinese community.
- **1996** – LCBO introduces BYID (Bring Your Identification) photo ID card to make it easier to identify customers of legal drinking age. Under new Check 25 program, LCBO employees ask anyone appearing 25 years or younger for proof of age. AIR MILES Rewards are introduced at LCBO stores. LCBO transfers \$680 million to the Ontario Treasury, the largest one-year transfer ever. Six more record transfers will follow.
- **1997** – LCBO is named Innovative Retailer of the Year and Socially Responsible Retailer of the Year in the large-store category by Retail Council of Canada. The Innovative Retailer of the Year Award acknowledges overall industry leadership and innovative approaches to customer and employee relations. The Socially Responsible Retailer of the Year Award recognizes the LCBO's efforts in promoting responsible use of beverage alcohol. LCBO stores open on Sundays year-round after several successful pilots.
- **1998** – The Retail Council of Canada names LCBO Innovative Retailer of the Year in the large-store category for the second year in a row. LCBO adopts a whole branding strategy and brand vision: The Source for Entertaining Ideas. LCBO raises \$227,000 for Canadian Commonwealth Games athletes during its Quest For Glory promotion.
- **1999** – LCBO opens Canada's largest liquor store in the Bayview Village Mall in Toronto. The 20,000-sq.-ft. store wins the Best Layout and Design Award from the Retail Council of Canada. LCBO, in partnership with MADD Canada, launches \$2.4 million responsible drinking advertising campaign that features 200 billboards with photographs of crashed vehicles, and in some cases actual crashed vehicles, and the message, "Drinking and Driving is No Accident."
- **2000** – The largest-ever LCBO promotion, Welcome Home to Ontario Wine Country, is launched. The month-long promotion showcases 74 Ontario wines, including 49 VQA wines. Under the Wonderful Ontario Wines training program, all LCBO employees are invited to tour Ontario wine regions to increase their knowledge of domestic products. New 17,600-sq.-ft. flagship store opens on Rideau Street in Ottawa. Like the Bayview Village store, it offers the complete range of LCBO products and services, including LCBO's first separate *VINTAGES* tasting room. Ontario Chamber of Commerce honours LCBO with Outstanding Business Achievement Award.
- **2001** – LCBO's Challenge and Refusal program results in more than one million individuals challenged and 80,000 refused service for failing to provide valid proof of age or for appearing to be intoxicated. Groundbreaking ceremony marks the start of the restoration of Toronto's Store 10, housed in the former North Toronto Station, a historic building with grand architectural features, including marble walls, a 40-ft. ceiling, brass wickets and a clock tower. The 21,000-sq.-ft. store will be LCBO's largest and the biggest liquor store in Canada.
- **2002** – LCBO delivers seventh straight record dividend to Ontario government, an all-time high of \$905 million. Together with \$275 million in Provincial Sales Tax and \$373 million in federal and municipal taxes, LCBO remits \$1.55 billion to all levels of government. On June 1, some 383 stores mark the LCBO's 75th anniversary with customer appreciation events, generating goodwill and positive media coverage across the province.





## The LCBO senior management team

*Front row, from left to right: Bill Kennedy, Executive Director, Corporate Communications; Barry O'Brien, Director, Corporate Affairs; Mary Fitzpatrick, Senior VP, General Counsel & Corporate Secretary; Bob Peter, President and COO; Gar Sherwood, Senior VP Retail.*

*Back row, from left to right: Gerry Ker, Director, Corporate Policy; Alex Browning, Senior VP Finance & Administration; Hugh Kelly, Senior VP Information Technology; Jackie Bonic, VP Store Development & Real Estate; Nancy Cardinal, VP Marketing Communications; Murray Kane, Senior VP Human Resources; Tamara Burns, VP Merchandising; Dr. George Soleas, VP Quality Assurance; Shelley Sutton, Director, Strategic Planning; Bob Downey, Senior VP Sales & Marketing; Ian Martin, Senior VP Logistics; Tom Wilson, VP VINTAGES; Roy Ecker, VP Store Operations.*



## MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATIONS

Canadian securities regulations require public companies to include a discussion of operating results in their annual reports, along with annual financial statements. As a provincial government operational enterprise, LCBO is not subject to these regulations. However, we've included this discussion to increase understanding of our operations and ensure full disclosure of our results to the widest possible audience. This section of the LCBO Annual Report explains the financial results for the past year and provides background for evaluating its performance.

### HIGHLIGHTS

(value in \$000s)

	2000-01	2001-02
Dividend to Government	\$850,000	\$905,000
Per cent increase	6.3	6.5
Net sales and other income	\$2,734,937	\$2,939,563
Per cent increase	7.3	7.5
Operating Expenses	\$468,090	\$489,633
Net Income	\$876,272	\$920,912
Per cent increase	3.6	5.1

### Dividend increases for eighth straight year

We transferred a record \$905-million dividend to government in 2001-02, a \$55-million increase over last year. This is the eighth straight year we've increased our dividend and our seventh straight record year.

The following table gives a 10-year history of the LCBO dividend paid to the province of Ontario.

The dividend has risen steadily in the past decade with the exception of a slight dip in 1993-94. Since then, the dividend has grown by 54.7 per cent or \$320 million.

### Billion-dollar payout for fourth straight year

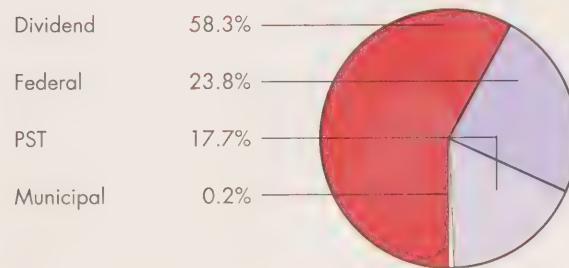
The LCBO dividend does not include Provincial Sales Tax (PST), which amounted to \$275 million in 2001-02. If you combine the dividend and the PST we collected, the LCBO broke the billion-dollar mark for the fourth straight year, giving our owners – the Government of Ontario – a total of \$1.18 billion. This is 6.8 per cent more than last year. LCBO also remitted \$83 million to the federal government in GST and \$3.4 million in property taxes to municipal governments.

Dividend	92-93	93-94	94-95	95-96	96-97	97-98	98-99	99-00	00-01	01-02
(\$000,000s)	\$615	\$585	\$630	\$680	\$730	\$745	\$780	\$800	\$850	\$905

### BREAKDOWN OF \$1 IN NET SALES



### LCBO PAYMENTS TO GOVERNMENT



Counting federal excise taxes and customs duties, our contribution to all levels of government totalled more than \$1.55 billion.

## LCBO outperforms retail sector

Despite a slow economy and fragile consumer confidence, LCBO net sales rose by \$206 million over last year, to \$2.92 billion – an increase of 7.6 per cent – setting another sales record.

The net sales growth of 7.6 per cent was impressive, especially in light of the economic fallout from the tragedy of September 11th and a slowing economy. LCBO managed to surpass its sales growth target of 4.6 per cent set at the end of last year. Even though people dined out less, the cocooning trend encouraged consumers to entertain at home, which in turn increased store sales in fiscal 2001-02.

LCBO led all liquor jurisdictions in Canada in volume and value growth. LCBO volume sales grew by 10.0 per cent while dollar sales grew by 7.6 per cent. Comparatively, Société des Alcools du Québec (SAQ) grew at a slower pace. SAQ volume sales grew by 5.3 per cent while dollar sales grew by 6.8 per cent.

Total retail sector sales in Canada grew 4.5 per cent between 2000-01 and 2001-02. According to Statistics Canada, Ontario underperformed the national average with retail sales growing by 2.9 per cent. LCBO was able to grow sales by 7.6 per cent, outperforming total retail sales growth on both the national and provincial levels. This was achieved in spite of a general slowdown in the retail sector.

## Sales strongest in Eastern and Western regions

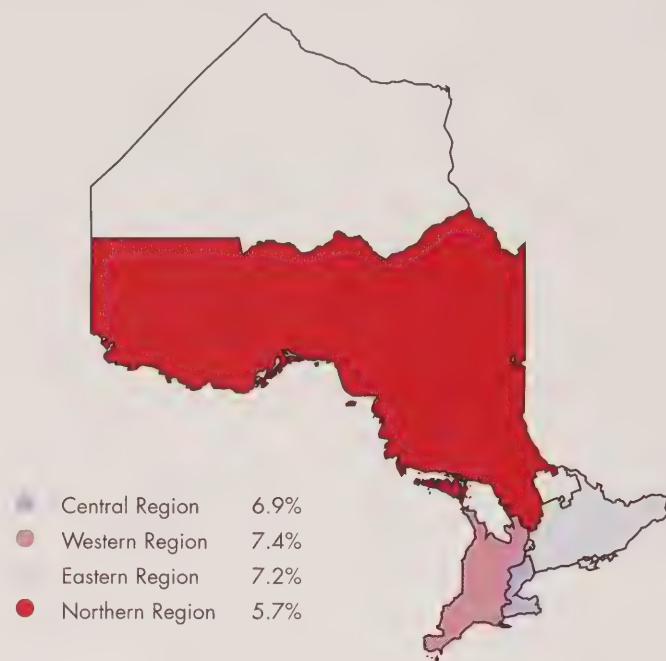
All four LCBO retail regions experienced strong sales growth in fiscal 2001-02: As the map on this page shows, the Western and Eastern regions led the way.

## Retail sales continue to be strong

LCBO retail sales, which we define as sales to home consumers, grew by 7.7 per cent over last year and accounted for 79.3 per cent of the LCBO's total net sales, amounting to \$2.32 billion.

Sales to The Beer Store (TBS) increased by 33.6 per cent, due to continuing growth in the sale of imported beer. Sales to TBS accounted for 5.5 per cent of total LCBO net sales.

Licensee sales accounted for 12.8 per cent of total net sales in fiscal 2001-02, sales to duty-free operators for 1.2 per cent, and sales to agency stores for 1.0 per cent. (In fiscal 2002-03, more than 70 new agency stores are scheduled to open in rural communities that do not have a large enough population base to support an LCBO or Beer Store.)



The events of September 11th had a significant impact on sales to licensees and duty-free operators. Sales to licensees were below plan by 9.6 per cent while duty-free sales fell short of the planned growth of 7.3 per cent. Compared to actual sales last year, sales to licensees were down slightly by 0.3 per cent and duty-free sales were lower by 1.4 per cent.

In 1999, a new program was established that allowed Ontario wineries to deliver VQA products directly to licensees. In fiscal 2001-02, VQA direct delivery by Ontario wineries increased by 68.3 per cent; LCBO domestic wine sales to licensees fell by 13.1 per cent in the same timeframe.

Combined, these wholesale sales represent 20.7 per cent of total LCBO net sales, up from 18.9 per cent five years ago.

## LCBO in the shared marketplace

The LCBO operates in a shared marketplace along with other retailers of beverage alcohol, including The Beer Store, Ontario winery retail stores (WRS), agency stores, on-site brewery stores, duty-free operators and on-site distillery stores. There are currently 1,553 outlets selling alcohol in Ontario.

Here's what the market looked like at March 31, 2002 (percentages have been rounded):

- 599 LCBO stores (38.6 per cent of all outlets)\*
- 431 Beer Stores (27.7 per cent of all outlets)
- 364 Ontario winery retail stores (23.4 per cent of all outlets)
- 105 agency stores (6.8 per cent of all outlets)
- 36 on-site brewery stores (2.3 per cent of all outlets)
- 11 land border-point duty-free stores (0.7 per cent of all outlets)
- 4 airport duty-free stores (0.3 per cent of all outlets)
- 3 on-site distillery stores (0.2 per cent of all outlets).

\*If you combine the LCBO's 599 stores and Ontario's 105 agency stores, the market share is approximately 45 per cent.

## Changes in market share

The total Ontario beverage alcohol marketplace amounted to approximately \$7.5 billion in gross sales in 2001-02. The LCBO's market share by value rose from 44.2 per cent in 2000-01 to 45.1 per cent in 2001-02. Winery retail stores

experienced a significant increase in sales, which drove their market share up from 2.1 per cent to 2.3 per cent over last year. While TBS's sales continued to climb, market share declined from 33.2 per cent in 2000-01 to 31.5 per cent.

## Other legal sales

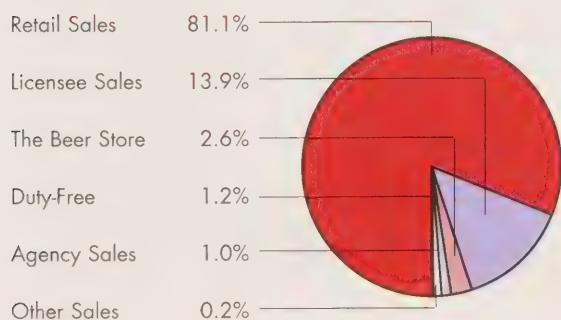
Other legal sales such as cross-border and brew-pub sales continue to be relatively stable. Total sales rose by 1.6 per cent in 2001-02. The market share for other legal sales dropped from 15.5 per cent to 15.1 per cent in 2001-02. This is primarily a result of higher sales growth by the LCBO, TBS and WRS.

U-brew and U-vint establishments are estimated to have risen in market share from 10.9 per cent in 2000-01 to 11.1 per cent in 2001-02. The number of licensed U-brews and U-vints in the province has grown over the past five years, from 454 registered establishments to 665.

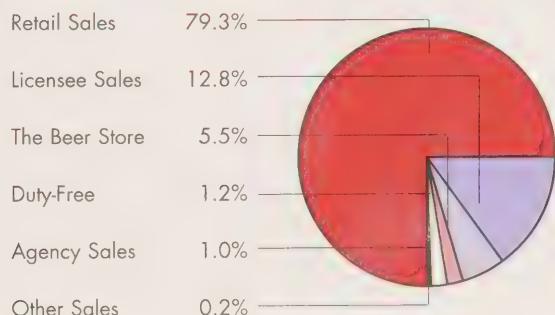
## Illegal competition

Since 1993-94, the estimated size of the illegal market in Ontario had been falling steadily. In 2001-02, however, illegal alcohol rose slightly from an estimated \$406 million, or 5.9 per cent of the total Ontario beverage alcohol market in 2000-01, to an estimated \$432 million in sales, or approximately 6.0 per cent of the market. This slight increase may be attributed to a relatively weak economy.

### BREAKDOWN OF LCBO SALES 1997-98



### BREAKDOWN OF LCBO SALES 2001-02



## Income statement

### Net income up by \$44.6 million

Net income for fiscal 2001-02 was \$921 million, almost \$45 million higher than last year, representing a 5.1-per-cent increase.

The net-income-to-net-sales ratio was 31.5 per cent, surpassing the 2001-02 target of 31.3 per cent but lower than last year's ratio of 32.3 per cent.

LCBO's expense-to-net-sales ratio surpassed expectations. It was originally forecast at 17.0 per cent and came in at 16.7 per cent in fiscal 2001-02. More detail is provided in the section on productivity ratios.

LCBO's net sales growth of 7.6 per cent was excellent, particularly in light of the economic slowdown this year. It surpassed the target of 4.6 per cent set at the end of last year.

### Gross margin up 5.1 per cent

Gross margin grew a healthy \$67.5 million to \$1.39 billion in fiscal 2001-02. This exceeded the planned target by 2.1 per cent and compared to last year, gross margin was higher by 5.1 per cent.

Gross margin as a percentage of net sales for 2001-02 was 47.6 per cent, below last year's value of 48.8 per cent, and slightly below the target of 48.0 per cent. The decline in the gross-margin-to-net-sales ratio reflects the continuing shift in the sales product mix from spirits towards beer, coolers and wine.

For every dollar of net sales, our gross margin return on spirits is \$0.57. On wine, it is \$0.49 and on beer \$0.29. Beer and wine now represent 51 per cent of total net sales, up from 50 per cent last year and 47 per cent five years ago. The increased weighting of beer and wine in the product mix means an ever-greater proportion of our incremental sales dollars come from the sale of lower-margin product lines.

The growth in the wholesale market also added to the lower gross margin ratio, because of the discounts provided on these sales.



*Customer Service Representative Mike Markovinovich uses a radio frequency scanner to update inventory information at the LCBO's GTA Service Centre, a new facility designed to improve service to licensees.*

## Productivity ratios monitored

To track expenses and see where improvements are needed, LCBO sets targets for many productivity ratios each year. For example, the store-expense-to-sales ratio shows what percentage of net sales is needed to pay retail expenses such as salaries, rent and other expenses. A declining salary-expense-to-sales ratio means that staff are becoming more productive.

## Retail productivity

LCBO had an excellent year by meeting seven of eight retail productivity targets set at the end of fiscal 2000-01.

LCBO's commitment to improving the store network, enhancing customer service and lowering store salary expenses led to significantly higher sales and increased productivity.

**Store salary to sales:** Store salaries were under budget by 1.1 per cent, which helped us surpass the target of 7.7 per cent, ending at 7.4 per cent.

**Store expenses as a percentage of sales:** Higher controllable labour costs led to slightly higher store expenses but still resulted in a ratio of 10.4 per cent, beating the target of 10.6 per cent.

**Store salary per unit sold:** The combination of store salary costs coming under budget and higher store unit sales resulted in the ratio coming in well below target at \$0.80.

**Store expenses per unit sold:** Came in at \$1.13, below the target of \$1.18. This was primarily due to holding the line on store salary and benefit costs in the fiscal year.

**Unit sales per hour:** Came in at 28.6, exceeding the target of 26.8. This is due to higher than expected units sold and fewer staff hours.

**Sales per customer:** At \$28.10, this was up from last year's result of \$27.86 but below the target of \$28.37. This was the only retail productivity target missed.

**Sales per square foot:** Up from last year's \$1,693 to \$1,752, exceeding the target of \$1,720. This is due to consumers' higher expenditures.

## RETAIL – FINANCIAL & OPERATING HIGHLIGHTS

	97-98	98-99	99-00	00-01	01-02
Store salaries to sales	7.8%	7.8%	7.6%	7.9%	7.4%
Store expenses as % of sales	10.8%	10.6%	10.5%	11.0%	10.4%
Store salary per unit sold	\$0.84	\$0.85	\$0.84	\$0.87	\$0.80
Store expenses per unit sold	\$1.16	\$1.16	\$1.17	\$1.22	\$1.13
Unit sales per hour	25.4	25.8	25.7	25.5	28.6
Sales per customer	\$25.75	\$26.19	\$27.19	\$27.86	\$28.10
Sales per square foot	\$1,452	\$1,546	\$1,674	\$1,693	\$1,752

## Logistics productivity

The logistics side of the business also performed well, meeting or surpassing six of seven productivity targets.

**Warehouse salary cost per case:** Due to higher than expected salary and benefit costs, this year's ratio came in at \$0.76, missing the target of \$0.72.

**Warehouse cost per case:** This ratio met the target of \$1.01, coming in at \$0.97 per case.

**Logistics cases per hour:** Bettered both the target of 67 and last year's 66, coming in at 70 cases per hour.

**Logistics cost per case handled:** Higher by \$0.02 per case compared to last year but exceeded the target of \$0.63 by a wide margin, coming in at \$0.59 per case handled.

**Freight expense per case:** Improved significantly compared to both last year's value and the target of \$1.26, coming in at \$1.11 per case.

**Inbound freight as a percentage of sales:** This ratio came in at 1.9 per cent, below last year's mark of 2.0 per cent and the target of 2.1 per cent, which reflected our expectation that fuel costs would continue to remain at high levels throughout fiscal 2001-02.

**Outbound freight as a percentage of sales:** Met its target by coming in at 0.6 per cent, the same as in 2000-01.

#### LOGISTICS – FINANCIAL & OPERATING HIGHLIGHTS

	97-98	98-99	99-00	00-01	01-02
Warehouse salary					
cost per case	\$0.74	\$0.74	\$0.73	\$0.73	\$0.76
Warehouse cost					
per case	\$0.98	\$0.91	\$0.93	\$0.90	\$0.97
Logistics cases					
per hour	59	62	64	66	70
Logistics cost					
per case					
handled	\$0.63	\$0.58	\$0.59	\$0.57	\$0.59
Freight expense					
per case	\$1.15	\$1.07	\$1.13	\$1.16	\$1.11
Inbound freight					
as % of sales	2.0%	1.9%	2.0%	2.0%	1.9%
Outbound freight					
as % of sales	0.5%	0.5%	0.6%	0.6%	0.6%

#### Operating expenses decline

The administrative expense ratio remained unchanged from 2000-01, coming in at 1.3 per cent. This was below the target of 1.4 per cent set for the fiscal year.

Operating expenses as a percentage of net sales improved from 17.1 per cent in 2000-01 to 16.7 per cent in 2001-02, bettering the target of 17.0 per cent. Control of salary and benefit expenses was the main reason for this improvement.

## Balance Sheet

#### Liabilities down

Liabilities, consisting of accounts payable and accrued benefit obligations, were down from \$249.4 million in 2000-01 to \$248.1 million in 2001-02.

#### Year-end inventories down

Year-end inventory was down from \$260.6 million in 2000-01 to \$226.3 million in 2001-02. Total inventory turns rose from 5.3 in 2000-01 to 5.9 in 2001-02, and surpassed the target of 5.5. Closer control over inventory contributed to this improvement.

#### More cash on hand

LCBO's cash position increased from \$48.0 million in 2000-01 to \$80.1 million at the end of 2001-02. Less inventory on hand increased our cash flow.

#### CAPITAL EXPENDITURES

(values in \$000s, numbers rounded)

	97-98	98-99	99-00	00-01	01-02
Retail	13,008	17,730	23,112	39,984	31,458
Information Technology	8,472	17,834	24,895	7,375	14,259
Logistics	1,213	1,658	1,760	2,066	3,493
Marketing Programs	1,989	2,558	2,434	1,231	1,730
Other					
Administrative Divisions	917	1,179	1,463	2,409	1,347
Systems Improvements	N/A	N/A	808	2,624	3,448
Total Capital Expenditures	25,599	40,959	54,472	55,689	55,735

As part of our five-year strategic plan to make LCBO the Source for Entertaining Ideas, most of the capital budget continues to be allocated to upgrading the retail store network.

Fiscal 2001-02 saw a significant increase in information technology investment. This reflects the development of the Integrated Store Environment (ISE) project, which includes the new point-of-sale (POS) system and sales audit system. The investment in our information technology infrastructure reflects our commitment to improving customer service by using the latest technology to increase our efficiency in processing transactions. (For more information, please see Leveraging Technology, page 35.)

## Looking ahead

In fiscal 2002-03 the successful identification and management of key issues in retail and logistics will result in a forecasted net sales increase of 5.1 per cent or \$149.8 million to \$3.1 billion. The forecast in net sales is more aggressive than the forecast for Ontario retail sales, which are expected to grow between 1.0 and 1.5 per cent.

As we enter the fifth year of our current long-term plan in 2002-03, we continue to look to highlight areas for improvement, focusing on expense control. To better manage

salary costs in the next fiscal year, we will work to better match staffing levels in retail stores to customer traffic patterns. To further increase inventory efficiencies, we have put in place and are monitoring updated inventory practices. We also intend to roll out a plan to ensure all stores have a core assortment of top-selling brands, along with a portfolio of products tailored to local tastes. In order to consolidate logistics in our Toronto and Durham warehouses for improved efficiencies, LCBO is exiting a rented Peel warehouse, which is being sublet.

Divisional expenses are expected to grow by 3.4 per cent. A number of factors will contribute to this increase, including higher rent, taxes and utility expenses; increased labour costs in our logistics system to support supply chain initiatives and reduce our need to expand warehouse space and spend capital to do so; training costs resulting from the implementation of upgraded point-of-sale and Web-based ordering systems; higher benefits costs as pension holidays come to an end; and increased spending on advertising. The increase in advertising will be largely offset by co-op funding contributions from our suppliers. The LCBO expects that some of its increased expenditures will result in significant cost savings. For example, investments in Web-based ordering software and related training are already helping to reduce costs associated with the storage and handling of excess inventory.



*Moving more cases directly from delivery trucks to store shelves frees up Retail staff to spend more time serving customers.*

Volume sales are expected to increase by 5.7 per cent next year while gross margin percentage is expected to continue its decline under the combined market pressures of stronger sales of lower-margin wine and beers and fixed mark-up rates, coming in at 47.2 per cent. Lower gross margin rates will drive net income down to 31.1 per cent of net sales as net income increases by 3.6 per cent from \$921 million to \$954 million.

In certain communities where beer sales do not reach levels high enough to support a Beer Store, LCBO has operated "combo" stores, which sell all sizes of domestic beer, including cases of 12 and 24. (In other communities, LCBO sells only six-packs of domestic beer.) In fiscal 2000-01, under an agreement between LCBO and TBS, Beer Stores opened in four such communities and LCBO combo stores converted to regular operations. Recent analysis shows

domestic beer sales volumes at these former combo stores fell by more than 90 per cent. While no such conversions took place in fiscal 2001-02, several more are expected in 2002-03.

Our product costs as a percentage of net sales are projected to rise slightly from 52.4 per cent in 2001-02 to 52.8 per cent in 2002-03.

Our dividend to the Government of Ontario should increase for the ninth consecutive year to \$975 million, an increase of \$70 million or 7.7 per cent. Having achieved a \$905-million dividend in fiscal 2001-02, we have now transferred \$179 million over plan in the first four years of the current five-year plan.

Our expense-to-net-sales ratio came in at 16.7 per cent in fiscal 2001-02, bettering the target of 17.0 per cent. This ratio is forecast to come in at 16.5 per cent in 2002-03, as a result of continued cost containment and efficiency measures.



*Ottawa employees Kimberley Denison, Paul Carriere, Natalie Saikaley, Les Taller, Michelle Bouchard and Glen Gartshore were featured in a poster telling customers how LCBO employees challenged more than 1.2 million would-be customers in fiscal 2001-02, because they appeared underage or intoxicated, or were believed to be buying alcohol for others who were underage or intoxicated.*



Fiscal 2001-02 was the fourth year in the LCBO's current five-year strategic plan. By all measures, the plan has been a great success, as net sales and dividends to the province have significantly exceeded forecasts.

Since the late 1980s, the LCBO has used strategic planning to help it develop, reach and often surpass business goals.

Five-year plans map out our long-term strategies for profitable growth; a rigorous annual planning process helps us keep pace with today's rapidly evolving marketplace.

When the current five-year plan was developed in 1997, senior LCBO managers established where the business was; identified where it should move to; and developed an action plan to get there.

From this process emerged a brand vision: the LCBO would strive to become more than a place to buy beverage alcohol. It would be Ontario's Source for Entertaining Ideas, helping customers entertain easily, yet adventurously, while maximizing profitability and promoting social responsibility.

At our Strategic Management Conference in November 2001, work began on the next five-year plan that will take the LCBO from 2003 to 2008. Guided by extensive research from our Customer Insights Group and bodies such as Statistics Canada, the LCBO's top managers analyzed the organization's strengths, weaknesses, opportunities and challenges that lie ahead. They reviewed key performance indicators and assessed trends in demographics, economics, retail and the beverage alcohol industry.

Here are some of the key questions asked at the conference, and follow-up sessions, to guide the development of the next five-year plan.

- What can the LCBO and the Ontario wine industry do together to build market share for quality domestic products?
- How can our employees better engage customers in dialogue about beverage alcohol? How do we ensure consistent service at every point of customer contact?
- Does our brand vision need refining or restating?
- What should our store network look like five years from now? How can we ensure LCBO stores are attractive and well-located, with the right mix of services to suit their trading area's customers?

- How should we allocate capital spending to maximize long-term profitable growth and return on investment?
- A key goal of our last plan was to tailor more products and services to the customers who provide the greatest growth opportunities. What does our research tell us about our progress toward that goal? What do we know about our customers now that we didn't know then, and how should that guide any shift in focus?
- A huge demographic bulge – the so-called Echo Boomers – is now reaching legal drinking age, and will continue to do so over the next decade. Do we know what they want from the LCBO and can we deliver on that?
- How can we better collaborate with suppliers to synchronize our business goals?
- How can we continue to improve product flow, so that we can offer the best mix of products without carrying excess inventory, and free up Retail staff to spend more time serving the public and licensees?
- How can we leverage technology to reduce excess inventory and improve productivity?

Cross-functional teams are now working – often with input from the LCBO Board, the Ministry of Consumer and Business Services and suppliers – to answer these questions and to develop a five-year plan that encompasses growth and investment strategies, as well as productivity improvement.

When the new plan is complete in the fall of 2002, it is expected to provide the same strong foundation for future success as the current plan has in its first four years. It will serve as the LCBO's guide as it continues to improve customer service, product selection and store environments, as well as key support functions such as information technology, logistics and communications.



# WINES

**MISSION: TO PROVIDE LCBO CUSTOMERS WITH AN EXCEPTIONAL SELECTION OF QUALITY WINES AT AFFORDABLE PRICES**



The Wines Category continued to grow in fiscal 2001-02, with value sales rising 4.9 per cent to \$769 million, slightly better than the 4.5-per-cent growth of the year before.

Three key segments continued to drive growth, according to Category Director Tamara Burns (since promoted to VP Merchandising): red wine, premium price bands and wines from Australia.

Red wines are more popular than ever for the following reasons:

- media reports suggest they impart more health benefits to moderate drinkers than other beverage alcohol products
- as consumers become more sophisticated and knowledgeable, they tend to prefer red wines
- producers are making more approachable, fruit-forward wines.

Reds now hold 44.0 per cent of the Ontario wine market in value sales; whites hold 38.0 per cent; sparkling, fortified and other wines 14.0 per cent; and rosés 3.5 per cent. In 1995, by comparison, white wines held a 51.0-per-cent share.

Since 1995-96, sales of premium wines in the \$10-\$15 range have grown by 25.0 per cent a year and now claim 18.0 per cent of the General List wine market. Wines in the \$15-\$20 band increased by 11.7 per cent this year and now hold a 1.6-per-cent market share.

Australia continues to grow its share of Ontario's wine market. In the past five years, dollar sales have climbed by an average 29.0 per cent a year; market share in litres has gone from 3.0 per cent to 7.7 per cent, and in dollars from 4.0 per cent to 11.0 per cent. This success can be attributed to consumer preferences for red wines; the excellent value Australian wines offer for the money; a fruit-forward style that is consumer-friendly; and strong strategic planning and collaboration within the Australian industry.

Volume sales of Australian reds grew by 28.0 per cent last fiscal year; whites by 16.0 per cent. In value sales, the increases for red and white were 31.0 per cent and 18.6 per cent respectively.

## Italy leads Europe in growth

Apart from Australia, other countries that enjoyed growth in fiscal 2001-02 included: Italy (the only major producer in Europe whose volume sales are not declining), up 9.1 per cent in value and 7.8 per cent in volume; South Africa, up 12.7 per cent in value and 11.3 per cent in volume; Chile, up 7.6 per cent in value and 7.5 per cent in volume; Argentina, up 4.3 per cent in value and 7.3 per cent in volume; and the U.S., up 2.9 per cent in value and 3.1 per cent in volume.

France continued to lose market share in 2001-02, dropping from 45.3 per cent of European wine value sales to 43.3 per cent (volume share declined from 46.5 per cent to 44.8 per cent). While its dollar sales declined by 1.0 per cent and litre sales by 3.2 per cent, France remains the top-selling producer after Canada.

Top 10 wine-producing countries by	Volume (Litres)	Value (Basic \$)
Canada	25,269,835 L	\$199,653,599
France	15,421,527 L	\$156,735,476
Italy	13,605,089 L	\$129,220,975
U.S.A.	7,415,878 L	\$ 74,944,707
Australia	6,210,906 L	\$ 85,627,840
Chile	3,656,515 L	\$ 37,199,824
Germany	1,946,921 L	\$ 19,523,017
Portugal	1,548,809 L	\$ 15,629,571
Spain	1,369,625 L	\$ 15,667,735
South Africa	1,355,731 L	\$ 13,783,844

## Domestic wines

Sales of domestic wines rose by 0.8 per cent in value and 0.5 per cent in volume, but these gains did not keep pace with the stronger growth shown by Australia and others.

Ontario wines bearing Vintners Quality Alliance (VQA) labels led domestic sales with increases of 5.1 per cent in volume and 5.2 per cent in value.

Ontario is well-positioned to build market share for its award-winning white wines, according to Burns: "Ontario can certainly take a leadership role with its Rieslings."

Ontario reds improve each year, but face tough competition from Australia and other New World producers.

Burns sees abundant opportunity for Ontario wineries to grow their business by educating consumers about the quality and value of their products; by fostering more winery tourism; and by producing more popular red wines made from Cabernet Sauvignon, Cabernet blends and Gamay. The LCBO is working with the industry to build market share for its products, including craft selections from smaller wineries. For more on LCBO's ongoing partnership with the Ontario wine industry, please see page 28.

## Looking ahead

Burns expects the following global trends to affect the Wines Category, and hence the LCBO consumer, in positive ways:

- overall improvements in the quality of product, packaging and value for money
- user-friendly displays and product information
- industry mergers and joint ventures that create new products and synergies among suppliers
- more wine country tourism, which offers consumers greater opportunity to learn more about wine from people who make it
- more effective strategic planning and marketing by winemakers around the world.

The Australian success story is expected to continue in fiscal 2002-03, boosted in part by an LCBO promotion called Aussie Stars. Other promotions will focus on Ontario wines (please see page 28), seasonal rosés, sparkling wines and food-friendly reds for barbecues.

The Wines Category will also focus on:

- flavoured wine drinks – varietal wines mixed with essences of fruit or lightly carbonated
- nouveau wines from Ontario, France and Italy
- additional sizes of key brands, such as the 1.5-L bottle of the best-selling wine in Ontario, Wolf Blass Yellow Label
- new red wines for consumers who are ready to trade up to higher price bands.

The category is also placing renewed emphasis on shelf and inventory management, to ensure stores are well stocked with the wines consumers want, for their own consumption or to give as gifts, from Ontario and all parts of the world.



# SPIRITS

**MISSION: TO DEVELOP THE SPIRITS CATEGORY INTO THE MOST DYNAMIC, INTERESTING AND EASIEST TO SHOP CATEGORY AT THE LCBO**



Sales of spirits at LCBO in fiscal 2001-02 rose to \$1.24 billion, 2.1 per cent more than the year before. This growth rate was lower than the previous two years, which averaged 5.5 per cent, but important nonetheless in a category that accounts for 45.7 per cent of LCBO net sales and 51.5 per cent of gross margin percentage. The Spirits Category leads all LCBO categories in profit contribution and average price per unit sold.

Among the factors that contributed to spirit growth this past fiscal year:

- LCBO retail employees know more about spirit products and are more comfortable discussing them
- LCBO promotions like "Just Add" showed customers how to entertain easily with spirit-based drinks
- more customers now embrace premium products
- suppliers continue to deliver appealing products in premium price bands
- Ontario's gift market grows every year, and spirit gift-packs form the lion's share of LCBO's holiday offerings
- improvements to the LCBO shopping experience have helped curtail the once-strong demand for smuggled spirits
- the weaker Canadian dollar has discouraged cross-border shopping.

The category is building on its past success by encouraging customers to shop its premium portfolios; encouraging more browsing; offering more product tastings; and offering more products in trial sizes (50 mL, 200 mL and 375 mL) at checkouts.

In the coming year, more tastings, promotions and product information will help showcase the diversity and versatility of spirits, says Category Director Shari Mogk-Edwards. "We see significant opportunities for growth by encouraging wine and beer buyers to experiment more with spirits."

## Best-selling spirits

In fiscal 2001-02, imported spirits showed higher growth (5.0 per cent) than domestic products (0.4 per cent).

While there was growth in most price bands from under \$10 to over \$99, the highest rates were for spirits priced from \$75-\$99, which grew by 9.9 per cent, and products priced over \$100, which grew by 16.6 per cent.

Whisky remains the largest spirit subcategory by far, with sales of \$456 million. Canadian whisky accounts for 73.9 per cent of these sales, followed by Scotch (22.4 per cent), American (2.8 per cent) and Irish whiskies (0.9 per cent).

While sales of Canadian whisky declined slightly – due in part to the difficulty the domestic industry has had in penetrating the deluxe market – sales of Scotch whisky rose by 1.6 per cent; Irish whiskey by 7.0 per cent; and American whiskey by 7.8 per cent.

Mogk-Edwards hopes to grow the Canadian whisky market next year by working with suppliers to broaden its appeal to women and beer drinkers, and by encouraging suppliers to do more promotions with licensees, which in turn create consumer interest in shopping LCBO for these products.

Vodka, the second-best-selling spirit at LCBO with sales of \$229 million, grew by 4.0 per cent in fiscal 2001-02. It remains particularly promising because of its ease of mixability; its popularity among women; and the propensity of vodka drinkers to trade up to premium and deluxe products. Flavoured vodkas also continued to do well, with sales growth of 46.8 per cent.

Sales of rum, the third-largest spirit set, grew a modest 1.2 per cent to \$174 million. One obstacle to growth in rums is the fact that white rums account for nearly 60 per cent of sales, and more than 98 per cent of all white rums are standard – non-premium or deluxe – brands.

The only spirits subcategory that saw real decline was tequila, whose sales continue to suffer due to a shortage of the Mexican blue agave plant from which tequila is made, which in turn has led to steep supplier price increases. Supplies – and prices – may not return to normal levels for several years, because of the long time it takes for an agave plant to reach maturity.

Liqueurs make up a fragmented portfolio containing many subsets, each with varying sales patterns and growth potential. The largest segments are cream liquors, dominated by Baileys Irish Cream, followed by fruit, coffee and nut liqueurs. Liqueurs account for 13.8 per cent of all spirit sales. Growth in fiscal 2001-02 was steady at 4.0 per cent.

Gift products sold throughout the year showed strong growth, increasing by 15.6 per cent to \$22.8 million. Sales of Christmas gift-packs grew 26 per cent. The top-five gifts for Christmas included four Crown Royal products – two packaged with glassware, the others with a flask or gift bag.

## Looking ahead

The Spirits Category team plans to grow its business in fiscal 2002-03 in a number of areas.

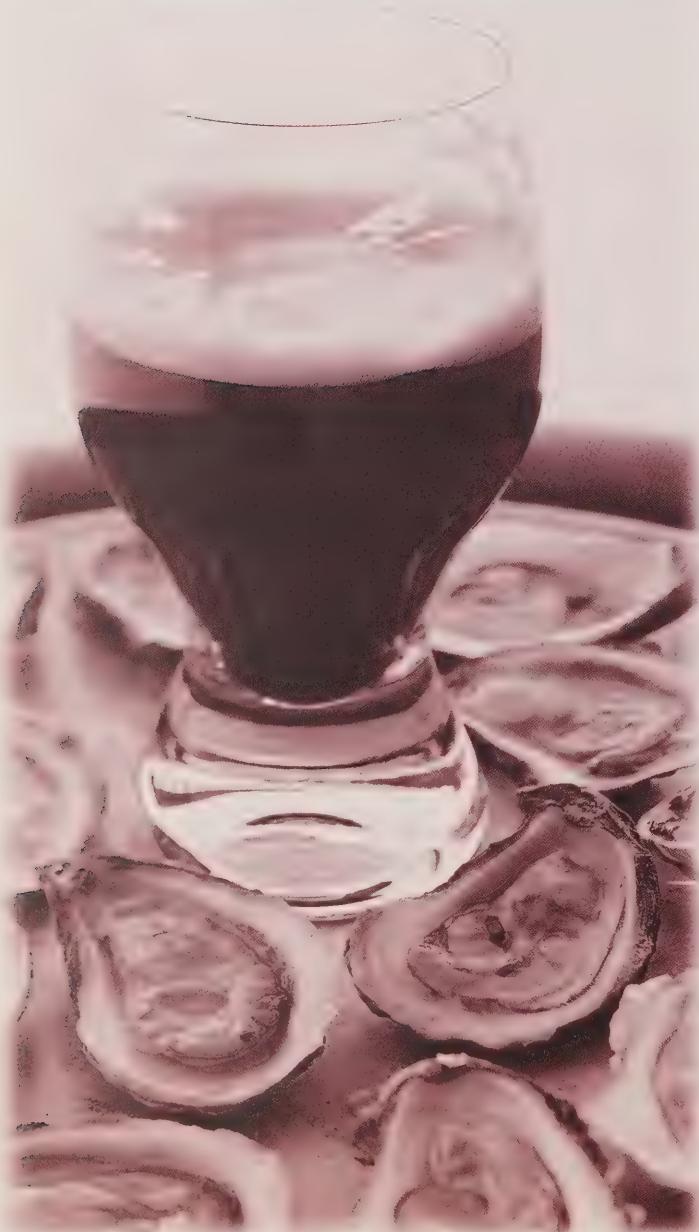
Its goals include:

- to leverage market research to learn more about spirit customers and better understand how to improve service to them
- to improve category signage in stores
- to focus on products that appeal to customers in key demographic segments and show strong potential for growth, primarily in premium (\$21-\$24.95) and deluxe (over \$25) price bands. These include Canadian whiskies, flavoured and regular vodkas, amber rums, Irish whiskey and brandy. Other potential areas of growth include single malt Scotch, American whiskey, premium gin, all price bands of Cognac and cream liquors
- to provide good size selection of keys brands of Canadian, Irish and American whiskies, blended Scotch, white rum and Cognac
- to use external marketing, such as free-standing inserts in newspapers, to showcase new products and LCBO promotions
- to increase average transaction value and frequency of shopping
- to increase sales to duty-free stores
- to ensure all stores are well stocked with a core assortment of popular, fast-moving products.



# BEERS SPECIAL MARKETS

**MISSION: TO DELIVER THE ULTIMATE INTERNATIONAL BEER EXPERIENCE**



Beers & Special Markets ended the fiscal year with sales of \$689 million, up 21.9 per cent over the year before and 13.5 per cent over plan. This performance is critical to the LCBO's ongoing success, given that beer accounts for approximately 50 per cent of Ontario's \$7.5-billion beverage alcohol market.

LCBO grew its business and market share, thanks to its strong selection, knowledgeable staff, informative tasting notes, interesting promotions, and one-stop shopping that also offers wines, spirits, coolers and other products, notes Category Director Randi Landy.

According to Landy, the category's performance was helped by better weather than the year before; an economy that was strong for most of the fiscal year; a customer base that grows as "Echo Boomers" – the children of the first wave of baby boomers – reach legal drinking age; and a trend toward premium imported and domestic products.

While beer may be a lower-margin product, its faster inventory turns, longer payment terms and excellent gross margin return on inventory investment make it very profitable for the LCBO to sell.

"Beer also encourages traffic in our stores," Landy adds. "Over the year, beer shoppers visit our stores 29 per cent more often and spend one-third more than average LCBO shoppers."

### Imports lead rising beer sales

Overall sales of beer were 16.5 per cent higher than last year.

Sales of beers imported from countries other than the U.S. – chiefly the Netherlands, Germany and Mexico – rose by 25.5 per cent. Perennial best-sellers such as Corona, Heineken and Becks led the way, along with such rising stars as Stella Artois

(Belgium), Grolsch (the Netherlands), Kozel (Czech Republic) and Warka (Poland). Eastern European beers in general continue to win customers over. Non-U.S. imports represent 40.6 per cent of LCBO beer sales.

Sales of Canadian beers from provinces other than Ontario – mainly Moosehead – increased by 29.9 per cent, but account for less than one per cent of LCBO beer sales.

Sales of Ontario beers rose by 11.7 per cent, boosted by the transfer of a former imported best-seller – Old Milwaukee, now brewed by Sleeman – to domestic status, and by increased selection of domestic six-packs in many LCBO stores. Premium domestic best-sellers included Sleeman Honey Brown, Creemore Springs, Steam Whistle and Alexander Keith's India Pale Ale. Ontario beers represent 42.9 per cent of LCBO beer sales.

Sales of U.S. beers rose by just 0.7 per cent, to 10.8 per cent of LCBO beer sales.

## The premium trend

With its vast selection of premium and specialty beers, LCBO is attracting the adventurous beer drinker. As young adults reach legal drinking age, many are trying premium products at a younger age than previous generations.

The trend toward premium products is a welcome one for a category that carries a large selection of premium imports.

Customers who prefer microbrews and other premium products appreciate more information on products and the foods they match. LCBO continues to make the beer shopping experience customer-friendly and informative.

Promotions in 2001-02 included “fan packs” for Super Bowl parties; six-packs of assorted premium beers for summer entertaining; and special displays for such occasions as Oktoberfest and St. Patrick's Day.

The category continued to grow its gifting business, with sales of beer gift-packs rising 41.5 per cent to \$1.6 million. Popular items included a selection of Belgian beers with branded glassware and unique Scottish ales with tasting notes.

## Cooler sales heat up

Beers & Special Markets also sells coolers, ciders, saké, kosher products and cocktails-to-go. Here's how these subcategories fared.

**Coolers:** Sales of coolers soared by 55.5 per cent over the previous year, helped in part by good weather; excellent products brought to market by suppliers; and the LCBO's creation in many stores of a “Party Zone” where consumers could find coolers and other beverages for entertaining. Most coolers are spirit-based, with wine- and beer-based products accounting for just 4.0 per cent of sales. Best-sellers in 2001-02 included newcomer Smirnoff Ice, with one of the best first-year performances in the category's history; line extensions of the popular Woody's brand (new flavours blueberry and orange); and established brands like Mike's Hard Lemonade.

**Cocktails-to-go:** Pre-mixed cocktails grew by 0.4 per cent to \$16.3 million, below expectations. They are expected to do better next year with the introduction of new Bloody Caesar products.

**Cider:** Sales dropped by 2.0 per cent to \$7.1 million.

**Kosher:** The LCBO offered nearly 100 kosher products for Passover and year-round use – the most ever – including table wines, spirits, fortified and sparkling wines and liqueurs. Sales rose 12 per cent to \$3.9 million, aided partially by the fact that Passover in both 2001 and 2002 fell into the LCBO's 2001-02 fiscal year. (Jewish holidays follow a lunar calendar.)

**Saké:** Sales rose 4.5 per cent to \$1.6 million.

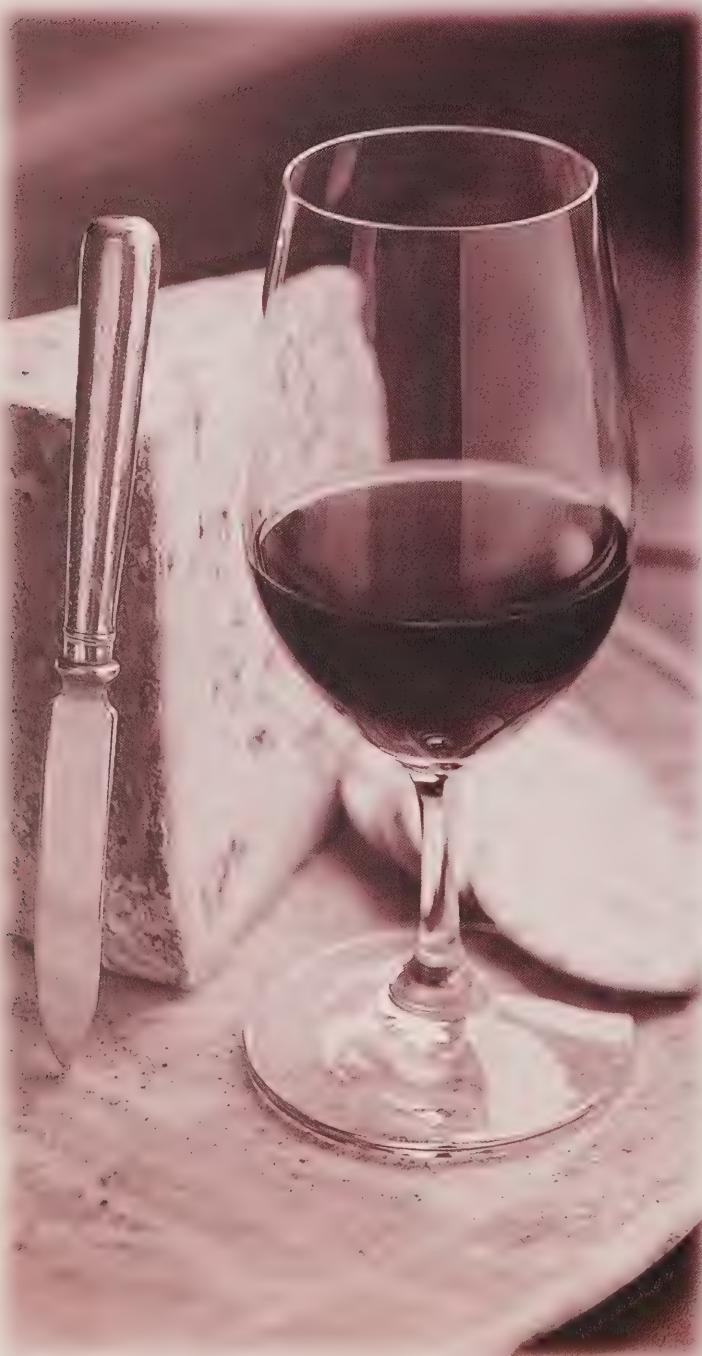
## Looking ahead

The category plans to build on its impressive recent growth (more than 100 per cent in six years) by improving its presence in stores. “Working with our store planners, we hope to devote more selling space to beers and other products – as well as more space for chilled products – perhaps by recapturing warehouse space as LCBO stores continue to reduce excess inventory,” says Landy. Market researchers also predict that 750,000 new customers from the baby boom echo will reach legal drinking age over the next five years. This puts Beers & Special Markets in a favourable position since these customers lean towards beer and Party Zone products.



# VINTAGES

**MISSION: TO BE THE BEST PURCHASER, MARKETER AND RETAILER OF FINE WINE AND PREMIUM SPIRITS IN THE WORLD**



VINTAGES, the premium products division of the LCBO, continued its trend of double-digit growth in fiscal 2001-02, increasing value sales to \$146.3 million, 14.3 per cent over the year before.

Key to this performance was a 19.6-per-cent increase in sales of red wine, which accounts for 61.3 per cent of VINTAGES' business. Sales of white wine – which account for 23.8 per cent of VINTAGES' portfolio – also increased, posting a 7.7 per cent gain. Rosés increased by 15.3 per cent, though from a much smaller volume base, roughly 0.6 per cent of the division's business.

Sales of spirits, which account for 6.1 per cent of VINTAGES' products, increased by 6.8 per cent.

Sales of sparkling wine continued to fall from the heights they hit during millennium celebrations in December 1999, declining by 1.4 per cent. VINTAGES had actually budgeted for a drop closer to 7.0 per cent, but a successful promotion of French Champagne in May led to a 3.4-per-cent annual increase for that important category.

Products from five countries – France, Italy, the U.S., Australia and Canada – account for 80.8 per cent of VINTAGES' sales.

France, the leader among these five, grew its market share in fiscal 2001-02 by a slight 0.2 per cent, stopping the decline of previous years. France's growth was spurred by strong sales of wines from the classic regions of Bordeaux (up 27.8 per cent), Burgundy (up 25.9 per cent) and Rhône (up 21.8 per cent).

Significant gains were made by Australia, which increased its sales by 31.2 per cent to a 10.7-per-cent market share, and Italy (sales up 17.6 per cent to a 16.7-per-cent market share). Sales of products from the U.S. rose by 3.5 per cent, but market share declined to 16.0 per cent. Sales of products from Canada grew by 17.3 per cent. The vast majority

(91.2 per cent) of Canadian products sold through VINTAGES are from Ontario, 58.0 per cent of which are Icewines. This segment increased sales by 8.0 per cent. Ontario table wines sold through VINTAGES performed well, boosted by their participation in the popular Wines of the Month program.

Portugal, Chile, Spain, New Zealand and Great Britain account for another 13.4 per cent of sales, with market shares ranging from 3.4 to 2.3 per cent. Argentina, Germany and South Africa all hover around the 1.0 per cent mark. Another 40 countries make up the final 3.0 per cent.

VINTAGES released almost 2,900 fine wines and spirits during the fiscal year. Scores of new products are released every month in more than 150 LCBO stores. Hundreds more are made available through alternate channels, such as the *Classics Catalogue*, published three times a year.

Retail programs increased their sales by 13.3 per cent. Sales through the *Classics Catalogue*, Futures and other "direct marketing" programs increased by 27.1 per cent.

In fiscal 2001-02, catalogue sales were \$20.5 million, up 8.0 per cent over fiscal 2000-01. The Bordeaux and Burgundy Futures programs allow consumers to buy wines before they are bottled, usually at a lower price than they would eventually pay in retail stores. This fiscal year, sales of Bordeaux Futures brought in \$6.2 million.

A number of year-round programs continued to make shopping VINTAGES more convenient and accessible. The Wines of the Month program highlighted approachable products that offer excellent value. VINTAGES Essentials made popular core products available on a continuing basis. The Cellar Direct program helped collectors choose products suitable for aging. An e-mail information bulletin, called V-Mail, kept customers informed about upcoming VINTAGES programs.

VINTAGES staged a number of successful public events this year in Toronto, Kingston, Kitchener and Ottawa, including winemakers' dinners and tastings where enthusiasts could sample products from upcoming *Classics Catalogue* releases – and order them on the spot if they so desired. On-site sales from such events in fiscal 2001-02 totalled \$1 million.

To reduce excess inventory in stores and warehouses, VINTAGES held its biggest-ever in-store sale in February 2002, with some 440 products marked down by an average of 25.0 per cent. A warehouse sale, held in March 2002 at VINTAGES' Peel facility, offered similar savings, and was met with similar enthusiasm.

## Looking ahead

VINTAGES will continue to expand event programming, offering licensees and retail customers the opportunity to taste products before buying them – an important consideration for consumers who favour premium products.

Its first-ever commercial auction of fine wines will be held November 9 in Toronto, and is already generating excitement among enthusiasts.

Now published three times a year, the *Classics Catalogue* will expand in the fall to four editions – and possibly as many as six at a later date – while scaling back production costs.

VINTAGES plans to expand its offerings of futures and pre-arrivals from Bordeaux, Burgundy and, this year, California, to meet demand on the part of customers who want to save money when purchasing highly sought-after wines.

Other important changes are in the works to reduce the handling and cost of excess inventory, and improve customer service and efficiency.

Upgrades to Toronto Warehouse will also allow VINTAGES to return to that facility from a temporary, leased location in Mississauga. The move will allow VINTAGES to store more products in climate-controlled conditions and get products into the marketplace more quickly. (For more details, please see page 34.)

Dividing its monthly releases into two waves (launched in May 2002) is expected to help improve product flow and presentation on shelves, and bring customers into stores more frequently, leading to incremental sales.

Says VP VINTAGES Tom Wilson: "These measures should help us reduce the amount of inventory we carry, continue our robust sales growth and improve customer service."



The first thing a customer sees in virtually every LCBO store is a section of Ontario wine.

We've put that section front and centre in stores across the province to help build awareness of the many fine domestic wines we offer. Larger stores also feature prominent displays of premium domestic wines bearing Vintners Quality Alliance (VQA) labels.

Ontario's wine industry has grown tremendously in the past 15 years, both in size and the quality of its products.

Ontario now boasts more than 100 wineries – a number that seems to grow by the week – many of which produce award-winning varietal wines, sparkling wines and world-famous Icewines.

In the past 10 years alone, Ontario wines have won 151 gold medals worldwide, including top awards at such prestigious international wine competitions as Vinexpo (Bordeaux), Vinitaly and England's International Wine and Spirit Competition. Though the industry is a relatively small player in the international wine marketplace, our unique climate and viticulture, and the dedication and craft of our winemakers, prove Ontario can compete with the best in the world.

LCBO has worked closely with the industry to foster continued improvements in quality and help establish an Ontario wine appellation system – Vintners Quality Alliance Ontario.

Every fall since 1995, LCBO has presented a month-long Ontario wine promotion in all stores to help build awareness and momentum before the holiday sales period. LCBO has made significant investments in an innovative staff-training program, Wonderful Ontario Wines (WOW). Developed in partnership with Ontario winemakers, it provides LCBO employees with a greater understanding and appreciation of Ontario wines so they in turn can better promote them with customers.

We also recently introduced a VQA Craft Winery Selection in nearly 60 stores to help smaller Ontario wineries establish their brands so they can better compete. And we supported an initiative that allows wineries to deliver VQA wines directly to licensees.

On a broader level, LCBO has partnered with Ontario's wine and grape industries in developing an overall Ontario Wine Strategy. A key goal is to help Ontario wines achieve a greater volume share of the \$1-billion wine market in Ontario.

New initiatives in fiscal 2002-03 will include an Ontario "wines of the month" program, which will highlight in each four-week sales period one white and one red wine that offer superior value for the money; an employee who will serve as an Ontario wine advocate in larger stores to help customers shop for Ontario wines; four free-standing newspaper inserts that will promote Ontario wines in LCBO stores; the creation of a new position in Sales and Marketing – a Product Manager for Ontario wines to help ensure our product selection meets evolving customer tastes; and a new flagship store in St. Catharines, slated to open in late 2002, which will highlight the fine products that Ontario's wine regions offer.

Providing support to the domestic industry requires a delicate balance, as Ontario must comply with Canada's international trade obligations that require a level playing field in the pricing and marketing of domestic and imported wines. Working within these boundaries, LCBO helped the Ontario government negotiate greater access for Ontario wines to the European Union.

As an organization that pursues excellence in every endeavour, the LCBO recognizes in Ontario's wine industry a kindred spirit, and will continue to work with the industry to build customer awareness and appreciation of its products.



*A new Craft Winery Selection program is designed to help smaller VQA wineries establish their brands.*



# A BANNER YEAR FOR QUALITY ASSURANCE

On September 26, 2001, a banner was raised to the roof of the LCBO Head Office in Toronto, proclaiming the Quality Assurance (QA) department's accreditation under ISO-9001-2000 and under ISO/IEC-17025, a designation specific to chemistry laboratories.

The accreditation shows that QA's policies and procedures meet the high standards set by the Geneva-based International Organization for Standardization.

"This is the highlight of the year, as far as we are concerned," said Dr. George Soleas, VP Quality Assurance. "These designations endorse the soundness of our testing methodology and results."

QA's primary goal is to ensure all products sold by the LCBO are of the highest quality and meet standards set out in Canada's *Food and Drugs Act* and *Consumer Packaging and Labelling Act* and their related regulations.

In fiscal 2001-02, some 316,000 tests were conducted on 13,297 products prior to their sale. QA also arranged nearly 5,000 tastings of products to ensure they met high standards set by the LCBO, and, where applicable, the Vintners Quality Alliance Ontario.

QA performed many other functions for the LCBO and its stakeholders in fiscal 2001-02.

The department helped Fruit Wines of Ontario develop policies, standards and regulations for wines made from fruit other than grapes, helping to get more of these domestic products on store shelves.

In collaboration with suppliers, agents, and the Canadian Food Inspection Agency, QA continued building a database on potential allergens in beverage alcohol products, such as liqueurs made with nuts or chocolate.

The QA lab tested samples seized by enforcement agencies and assisted in confirming whether products were illegally manufactured or smuggled into Ontario. Employees also served as expert witnesses in provincial court or at licensing hearings held by the Alcohol and Gaming Commission of Ontario.

The laboratory also tested products for other Canadian liquor jurisdictions and for suppliers. Fees for these services help offset the cost of new equipment.

Soleas and colleagues at the University of Toronto and Mount Sinai Hospital continued to lead research into compounds in wine that affect human health. This past fiscal year, Soleas reported new evidence that antioxidants found in red wine can prevent cell mutation that frequently leads to cancer.

"We also found that resveratrol, a compound found in red wine grapes – especially those grown in cool climates such as Ontario's – can prevent the development of tumours," said Soleas, who earned a PhD in 2001 from the University of Toronto for his research.

The department continued to operate with greater efficiency and at lower cost than ever before, driving down expenses, costs-per-sample and turnaround time for processing samples.

"Like the rest of the LCBO, we aim to provide superior service at lower cost," Soleas said.



*Employees of LCBO's Quality Assurance department celebrate its double ISO accreditation.*



A man is refused service at an LCBO store because he appears intoxicated. Watching him leave the store, the employee who refused service sees him head for a car in the parking lot. The employee alerts his colleagues and follows the man out. While he tries to convince the man not to drive, another employee calls the police with the licence number of the car. Hopefully, the man will listen to reason and hand over his keys. If he doesn't, there's a good chance the police will stop him before he hurts himself or others.

In fiscal 2001-02, such incidents were documented at LCBO stores in Toronto, Kingston, Peterborough, Hamilton and elsewhere. It's just one example of the commitment LCBO Retail employees have to their communities. As one manager observed: "Bad enough the guy drove to our store in that condition. At least he didn't drive away."



*Mississauga employees Al Fedor and Hermano Pereira refused service to would-be customers who appeared intoxicated, then called police when these individuals drove away from their store.*

As a caring retailer, LCBO works on its own, and in partnership with other organizations, to make a difference in every community it serves.

We refuse to serve minors or customers who appear intoxicated; create and distribute materials on responsible hosting and personal consumption; advertise against impaired driving; raise funds for MADD Canada and other organizations that promote responsible drinking; and conduct our business in an environmentally responsible fashion.

Here are some initiatives undertaken in fiscal 2001-02 in these areas:

**Challenge and Refusal:** All LCBO Retail employees are trained to challenge and refuse service to anyone who appears underage and cannot provide valid ID, appears intoxicated, or is believed to be buying alcohol for minors or intoxicated people. In fiscal 2001-02, LCBO employees challenged 1,225,169 customers, 6.7 per cent more than the year before. Nearly 77,000 were refused. Most challenges (97 per cent) were age-related. To make it easier to identify customers of legal drinking age, LCBO issued 4,101 tamper-resistant BYID photo ID cards in fiscal 2001-02. Some 20,000 BYID cards have been issued since 1996.

**Promoting responsible consumption:** LCBO believes beverage alcohol is best enjoyed in moderation and reinforces that message wherever possible. We offer low-alcohol products and set minimum prices to encourage responsible consumption. We publish and distribute recipes for nonalcoholic drinks, brochures that show hosts how to entertain responsibly, and other social responsibility materials.

In fiscal 2001-02, we focused on helping high school students make healthy choices regarding alcohol. We developed and sent to every Ontario high school an information kit for students, including materials from such organizations as the Centre for Addiction and Mental Health and the Road Safety Office of the Ministry of Transportation. LCBO store managers made presentations at school assemblies, and invited school officials to visit stores on prom nights to deter underage students from trying to purchase alcohol. We created a kit to help students and their parents plan safe and responsible prom celebrations, and worked with the Ontario Physical and Health Education Association (OPHEA) and other partners to revise resource materials on alcohol,

cannabis and tobacco for grades 7 and 8. The materials now specifically address expectations set out in the Ministry of Education's 1998 Ontario curriculum.

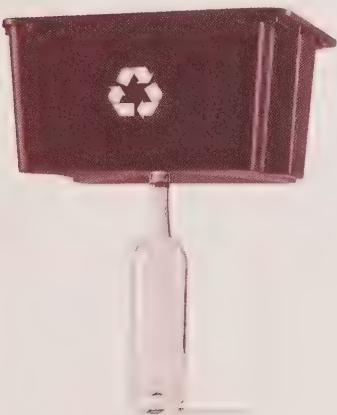
**Advertising:** In June 2001, the LCBO launched a year-long \$2-million social responsibility campaign aimed at males aged 25-34 who are moderate drinkers and believe they can drive safely after consuming a few drinks. Its overriding theme was "Drinking and Driving is No Accident. It's a Choice."

Campaign elements included a powerful television commercial, in which a mother's joy at watching her baby take her first steps turns to sadness as she recalls the recent

death of her husband in a drunk driving crash. Radio commercials reminded people that drinking and driving can be devastating for the drinking driver, his or her family, and innocent victims. LCBO also collaborated with the Ottawa Senators hockey club on a campaign against impaired driving, and reprinted a series of humorous posters created for licensees in fiscal 2000-01, which challenged young males to make the right choice about drinking and driving.

**Fundraising:** LCBO raises hundreds of thousands of dollars a year for charity. In the fall of 2001, LCBO raised a record \$146,000 for the United Way through employee donations and special events. Our donation box program raised more than \$400,000 for national and provincial organizations, including MADD Canada (\$46,000), the Ontario Community Council on Impaired Driving (\$15,000) and the Traffic Injury Research Foundation (\$7,400). We also raised \$87,000 for We Care, to help send children with disabilities to summer camp, and more than \$39,000 for Camp Oochigeas, which provides getaways to kids with cancer. Other monies come from in-store tastings, local donation box drives in January and July, gift-wrap programs, the sale of compilation CDs and many more events on behalf of local charities.

**Environment:** In November 2001, LCBO sent cheques totalling \$4 million to 173 Ontario communities, to help cover costs associated with recycling beverage alcohol containers through the Blue Box system. Since 1998, the LCBO has contributed \$16 million in direct funding to municipalities to help cover such costs, and will contribute \$25 million more over the next five years. LCBO stores also recycle corrugated cardboard; Head Office recycles fine paper, polystyrene, bottles, cans, newspapers, data tapes and other materials. We encourage suppliers to minimize their packaging and contribute to nonprofit environmental organizations such as the Composting Council, Recycling Council of Ontario and Pollution Probe.



### We support the Blue Box program

**LCBO**

Over the past four years, the LCBO has contributed \$16 million to the Blue Box program to help cover the cost of recycling beverage alcohol containers. Now we've pledged a further \$25 million over the next five years which will help nearly 200 Ontario communities with their waste diversion activities. These are just some of the ways we're helping to achieve Ontario's 50% waste reduction goal. Your part is simple. Just pitch in.

*This in-store poster highlighted LCBO's strong support of municipal Blue Box programs. LCBO sent cheques totalling \$4 million to 173 Ontario communities in fiscal 2001-02 to help cover costs associated with recycling beverage alcohol containers.*



# MARKETING COMMUNICATIONS:

## ENGAGING THE LCBO CUSTOMER

The winter holiday season is the busiest time of year in LCBO stores, as customers come in search of products they can give as gifts or use to entertain family and friends.

In fiscal 2001-02, LCBO created Holiday Magic, a two-month promotion designed to provide customers with easy entertaining and gifting solutions. It was the best example yet of integrated marketing at LCBO, says Nancy Cardinal, VP Marketing Communications. "Every point of contact with our customers – in all our stores, on our Internet site, in *FOOD & DRINK* magazine – featured consistent imagery and messaging."

Store sales results were strong during the two-month period when Holiday Magic ran, rising nearly 8 per cent over the year before, despite weaker sales to licensees in the post-September 11th environment. Sales of pre-packaged Christmas gift items rose in every product category: by 32 per cent in Spirits, 11 per cent in Wines and 41 per cent in Beers & Special Markets.

Holiday Magic shows how integrated marketing can help LCBO customers learn more about beverage alcohol and entertain easily, adventurously and responsibly.

The brand vision of LCBO is to be Ontario's Source for Entertaining Ideas, as first articulated in its five-year strategic plan for 1998-2003. Since 1998, this whole branding strategy has contributed to LCBO's long-term profitable growth, as net sales and dividends to the province have exceeded forecasts in every year of the plan to date.

Driving the whole branding strategy is the LCBO's free consumer publication *FOOD & DRINK*, now published six times a year. Throughout the fiscal year, in-store promotions brought to life the themes, recipes, drink mixes and colour palettes from each issue of *FOOD & DRINK*.

Other promotions showcased special events, such as Super Bowl Sunday and various ethnic holidays. "Our research shows that customers are more interested in and knowledgeable about beverage alcohol products than they used to be, but still apprehensive about making poor choices," Cardinal says. "Our displays, promotions and staff training are designed to take the risk out of every purchase."

In fiscal 2002-03, LCBO and its suppliers will continue developing informative displays and promotions that help customers find the right product for personal consumption or gift-giving.

Ongoing staff training will help all Retail employees develop their ability to answer product-related questions, match products to foods and help customers plan gatherings from informal barbecues to weddings.

Our customers expect – and should receive – the same knowledgeable, friendly, caring and inspired service no matter where they shop. Our brand vision helps ensure a positive and consistent experience wherever customers shop the LCBO, from Timmins to Toronto.



*The Holiday Magic promotion provided customers with easy entertaining and gifting solutions.*

# STORE UPGRADES INCREASE SATISFACTION, PROFITS

For the past 60 years, the LCBO's Store 10 has operated out of the old North Toronto train station, which was rendered obsolete when Union Station opened downtown in 1927.

Much of the historic station's architectural grandeur will be restored when the LCBO completes renovations to Store 10, on Yonge Street at Summerhill, in the heart of affluent Rosedale.

When completed, it will be the largest store in the LCBO network, offering its knowledgeable and demanding customer base more than 5,500 products in 21,000 sq. ft. of selling space, including Ontario's most extensive VINTAGES section. Its sales are expected to be the highest in Ontario.

Like other major retailers, the LCBO must constantly improve its store network to ensure it meets evolving customer expectations for service, selection and accessibility.

In fiscal 2001-02, we upgraded or relocated 18 stores in communities of all sizes: Belleville, Bramalea, Brantford, Cornwall, Denbigh, Echo Bay, Maple, North Bay, Peterborough, Sarnia, Teeswater, Toronto, Waterloo, Welland and Windsor. Seasonal or temporary stores were also opened in Clearwater Bay, Rossmore and in Toronto's Royal Ontario Museum, to coincide with an exhibit on wine called *Gift of the Gods: The Art of Wine and Revelry*.

Market research helped determine the best locations, factoring in parking, visibility, barrier-free access, loading

facilities, demographics and proximity of other retailers, including other LCBO stores.

In all, we spent \$30.5 million on upgrades, repairs and other improvements in fiscal 2001-02, 54 per cent of the capital expenditures for the fiscal year. The LCBO incurs no debt when carrying out capital improvements; all projects are funded from the seamless five-year capital plan (1998-2003).

Improved customer satisfaction ratings and sales indicate these upgrades are well worth the effort. So do our sales per square foot, which have increased from \$1,262 in 1993-94, when we began reporting them, to \$1,752 in fiscal 2001-02.

Next fiscal year, we plan to open 17 new stores, including the flagship Store 10; full service stores in Brampton, Collingwood, London, Markham, Newmarket, Richmond Hill and St. Catharines; and mid-sized stores in Alliston, Mississauga, Ottawa, St. Thomas, Tecumseh and Toronto.

We also plan to upgrade dozens of stores to our current standards for colour, lighting and signage; continue maintenance projects in some 85 stores; and roll out at least 70 new agency stores in communities not large enough to support a regular LCBO store.

By paying close attention to what our customers want, we can continue to increase profitability by improving our retail network to meet and exceed expectations in every market we serve.

*Upgraded LCBO stores offer enhanced product selection and customer services in appealing shopping environments. The new Store 416 in Bramalea, upgraded in fiscal 2001-02, includes this Knowledge Centre, featuring books, videos and CD-ROMs designed to help customers learn more about the products we sell.*





# LOGISTICS MOVES FORWARD

## TO BETTER SERVE STORES

Like Quality Assurance (page 29), the LCBO's Logistics Division celebrated ISO accreditation in fiscal 2001-02, when its London and Thunder Bay warehouses were certified under ISO 9002.

The accreditation reflected improved procedures and workflow at the London facility, according to Ian Martin, Senior VP Logistics.

The LCBO had considered closing all four of its conventional warehouses (the others are in Thunder Bay, Ottawa and Toronto) beginning in 2003, and shipping all product out of its largest warehouse, the fully automated Durham Logistics Facility in Whitby. That plan has now been reconsidered for three reasons:

- a review of the costs of expanding Durham showed they would be higher than consultants estimated
- improved product flow throughout the LCBO is reducing excess inventory, which had been putting a strain on warehouse capacity
- Logistics employees significantly improved productivity at all facilities in fiscal 2001-02.

Instead, the LCBO will upgrade Durham and automate at least two conventional warehouses to better serve its retail store network.

Durham will get upgrades to several systems, including software applications that help sort product into store orders and track cases.

The warehouses in London and Toronto will be upgraded and automated to further increase efficiency, allowing workers to pick orders for more than one store at a time, as is done at Durham.

Renovations and equipment upgrades should be complete by the fall of 2002.

LCBO will also move out of a Peel warehouse it rented last year to handle excess inventory. Now that excess inventory is being reduced in stores and warehouses, the Peel facility has been sublet. VINTAGES' inventory, which was being stored at the Peel warehouse, will move back to Toronto Warehouse once the upgrade is complete.

Decisions on whether to upgrade the Ottawa and Thunder Bay facilities will be made in fiscal 2003-04.

More efficient operation of its warehouse system and reduced inventory investment are helping the LCBO implement other aspects of its supply chain improvement project.

More frequent deliveries to stores, for example, allow stores to reduce costly excess inventory while maintaining adequate stocks of products. (All higher-volume stores – about half of all stores in the network – began receiving deliveries at least twice a week beginning April 1, 2002. Some higher-volume stores that had already been receiving twice-weekly deliveries have had a third delivery added to keep product flowing.)

"Our goals are to reduce unnecessary product handling and free up Retail staff to spend more time helping customers," says Martin. "In the Logistics Division, both management and employees have shown flexibility in how we go about achieving these important goals."



*The LCBO is upgrading its Toronto and London warehouses, as well as its main Durham Logistics Facility in Whitby, to better serve its retail store network. Left to right at Toronto Warehouse are Maintenance Workers Vic Patafio and Tom McCall, Warehouse Worker Ian McDonald, contractor Elvy Zanette and Keith Grant, Director of Special Projects, Logistics.*



# LEVERAGING TECHNOLOGY FOR GREATER EFFICIENCY

It used to take employees at Store 329, Brampton, four hours to produce their weekly order using the LCBO's IMPACT system.

It now takes them just half an hour using new Web-based ordering software.

The software generates suggested order quantities, using the store's sales history to forecast future needs.

Employees can modify the orders or accept them as they are; in most cases, only minimal adjustments are needed.

Once they master the system, employees can reduce back-room inventory significantly, while keeping shelves well-stocked.

The system – developed jointly by the LCBO's Information Technology division and Stirling Douglas Group (SDG) – is just one of many ways in which the LCBO is leveraging technology to run, grow and transform its business.

Another major initiative is a new customer-driven point-of-sale (POS) system that will improve the speed of transactions; ensure greater accuracy of data; help calculate the return on investment of certain corporate initiatives; track promotional items; and apply price updates accurately and quickly. The system is part of a larger Integrated Store Environment (ISE) project that will also improve the control and integrity of data Head Office receives from stores. There will also be significant improvements to store receiving and inventory management.

Other key technology initiatives for fiscal 2001-02 and beyond include:

- new warehouse management systems in the Toronto and London conventional warehouses (see page 34), and in the new GTA Service Centre that opened in the summer of 2002 to better serve licensees in the Greater Toronto Area
- improvements to the LCBO's Intranet, to help keep employees informed about key corporate initiatives; contribute to organizational learning by offering Web-based training; and reduce paper and mailing costs by providing on-line access to numerous forms, reports and other services

- a remote security system at Head Office that uses state-of-the-art hardware, software and video capability to monitor alarm systems in all Retail stores
- significant expansion of the data available through the LCBO data warehouse known as the Information Library
- ongoing improvements to the IT architecture and infrastructure.

"It's important to understand that technology is a business tool and not an end in itself," notes Hugh Kelly, Senior Vice President IT. "Everything we do is designed to improve our ability to serve customers in our stores, while carefully balancing value, risks and costs.

"Excellence in managing information technology and corporate data has never been more important to an organization's success," he adds. "This is evident not only in store settings, but behind the scenes where effective change management, project management and customer-relationship management are all keys to future success."



*Customer Service Representatives Tedd Traynor and Tricia Zamek use new Web-based ordering software to better manage inventory in their store. It's just one of many ways in which the LCBO is leveraging technology to run its business more efficiently and effectively.*



# PUBLIC SECTOR DISCLOSURE ACT

The *Public Sector Disclosure Act*, passed by the Ontario Legislature in 1996, is designed to make the public sector more open and accountable to taxpayers. The Act requires Ontario's public sector organizations, including LCBO, to disclose annually the names, positions, salaries and taxable benefits of employees whose employment income is \$100,000 or more a year. In keeping with the requirements of the Act, LCBO submits the following information for calendar 2001.

There are 52 LCBO names on this year's *Public Sector Disclosure Act* list, compared to 34 the year before. Eighteen directors appear on the list for the first time, owing to their years of service; the fact that they may have reached the top of their pay ranges and because they may have opted to take unused Management Compensation Option (MCO) days as cash in lieu of days off. (Most management staff are eligible to receive five MCO days a year.) Also contributing to increased levels of compensation was an Order-in-Council approval that adjusted management salary rates retroactive to April 1, 2000, to help LCBO compete, attract and retain the high level of executive talent it needs to meet its strategic and business objectives. This retroactive lump-sum payment is considered compensation in the year in which it is received (2001) and is included in this disclosure.

Name	Position	Employment Income	Taxable Benefits
Ashdown, Tony	Director, Human Resources Development	\$105,755.35	\$277.12
Bonic, Jacqueline	VP, Store Development & Real Estate	\$136,146.41	\$344.07
Bourre, Don	Director, Eastern Region	\$103,127.00	\$1,505.36
Brandt, Andrew	Chair & CEO	\$140,923.17	\$161.40
Browning, J. Alex	Sr. VP, Finance & Administration	\$169,919.48	\$394.58
Buck, Peter	Director, Human Resources Services	\$129,836.22	\$325.94
Burns, Tamara	Category Director, Wines	\$133,797.07	\$343.16
Cardinal, Nancy	VP, Marketing Communications	\$135,954.41	\$343.16
Chu, Hang-Sun	Sr. Systems Analyst	\$101,058.13	\$216.84
Collins, Robert	Director, Customer Insights	\$111,857.47	\$285.37
Downey, Robert	Category Director, Spirits	\$143,580.31	\$368.12
Dutton, Rob	Dir., Fin. Planning & Development	\$134,286.59	\$326.70
Ecker, Roy	Director, Central Region	\$135,878.72	\$346.93
Farrell, Michael	Director, Wholesale	\$122,726.83	\$321.35
Fisher, R. G.	Director, Western Region	\$135,723.05	\$349.61
Fitzpatrick, Mary	Sr. VP, Gen. Counsel & Corp. Secretary	\$169,919.48	\$394.58
Flynn, Larry	Sr. VP, Merchandising	\$140,628.67	\$298.76
Gee, Larry	Executive VP & Chief Operating Officer	\$247,715.93	\$548.22
Grant, Keith	Director, Traffic, Customs & Excise	\$104,128.81	\$292.84
Green, Michael	Solicitor	\$123,189.22	\$326.70
Hicks, William	Director, Traffic, Customs & Excise	\$109,796.87	\$290.25
Hobley, A. N.	Director, Customer Service & Admin.	\$112,624.13	\$305.75
Holloway, Brian	Director, Application Systems	\$120,472.29	\$319.51
Kane, Murray	Sr. VP, Human Resources	\$169,919.48	\$394.58
Kelly, Hugh	Sr. VP, Information Technology	\$169,919.48	\$394.58
Kennedy, William	Exec. Director, Corp. Communications	\$135,954.41	\$344.07
Ker, J. G.	Director, Corporate Policy	\$129,836.22	\$326.70
Lamantia, M.	Sr. Systems Analyst	\$100,245.62	\$215.25
Landy, Randi	Category Director, Beers & Sp. Markets	\$104,447.54	\$277.12
Lyons, Carol	Controller	\$124,587.24	\$326.70
MacGregor, Maralisa	Director, Supply Chain	\$111,449.07	\$283.18
Marshall, Dave	Director, Northern Region	\$127,273.22	\$1,125.70
Martin, John	Sr. VP, Logistics	\$167,455.46	\$394.58
McGrath, Bruce	Sr. Systems Analyst	\$103,161.37	\$216.84
McNee, J. (Andrew)	Solicitor	\$103,686.53	\$208.28
Mogk-Edwards, Shari	Category Director, Spirits	\$104,326.99	\$277.12
Murphy, Peter	Director, Conventional Warehousing	\$132,880.90	\$323.39
O'Brien, Barry	Director, Corporate Affairs	\$113,451.87	\$286.03
Pizzolato, Bruce	Director, Durham Facility	\$113,039.79	\$284.05
Ramsay, Gary	Director, Application Systems	\$128,752.10	\$325.94
Renton, Alison	Solicitor	\$118,487.90	\$318.77
Sherwood, Garfield	Sr. VP, Retail	\$169,919.48	\$394.58
Soleas, George	Director, Quality Assurance	\$127,984.66	\$308.35
Sutton, Shelley	Director, Strategic Planning	\$111,857.48	\$286.03
Tughan, William	Director, Loss Prevention & Security	\$113,655.48	\$286.03
Turner, Jim	Director, Western Region	\$103,127.00	\$501.36
Walker, R. Lila	Director, Compensation & HR Admin.	\$106,190.18	\$277.12
Whitelaw, Richard	Treasurer	\$118,179.73	\$300.34
Wilson, T. J.	VP, VINTAGES	\$135,955.43	\$343.16
Yazejian, Levon	Director, General Audit	\$111,857.48	\$286.03
Zachar, Wayne	Director, Employee Relations	\$127,273.22	\$325.94
Zaleskis, A. (Andy)	Director, Info. Tech. Infrastructure	\$123,153.36	\$325.94



# RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of the Liquor Control Board of Ontario have been prepared in accordance with accounting principles generally accepted in Canada, and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 12, 2002.

Management is responsible for the integrity of the financial statements and maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit and Governance Review Committee of the Board.

The Board, through the Audit and Governance Review Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit and Governance Review Committee, comprised of three Members who are not employees/officers of the LCBO, meets periodically with management, the internal auditors, and the Provincial Auditor to satisfy itself that each group has properly discharged its respective responsibility, and to review the financial statements before recommending approval by the Board.

The financial statements have been audited by the Provincial Auditor. The Provincial Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report, which appears on page 48, outlines the scope of the Auditor's examination and opinion.

On behalf of management:

J. Alex Browning

*Senior VP Finance & Administration, and Chief Financial Officer*



# FINANCIAL OVERVIEW

The following table lists three of the most important variables related to the operations of the LCBO: number of stores, permanent employees and regular products listed.

## Operations

	1998	1999	2000	2001	2002
Number of LCBO Stores	596	600	602	600	599
Number of Permanent Employees	2,934	3,014	3,074	3,174	3,225
Number of Regular Products Listed	3,098	3,366	3,496	3,478	3,487

The critical financial variables of net sales and other income, operating expenses and net income are given in the following table.

## Financial

	1998	1999	2000	2001	2002
Net Sales and Other Income	2,160,843	2,349,832	2,549,458	2,734,937	2,939,563
% change/previous year	7.30%	8.75%	8.50%	7.28%	7.48%
Operating Expenses	351,653	374,558	414,861	468,090	489,633
As a % of Net Sales & Other Income	16.27%	15.94%	16.27%	17.12%	16.66%
Net Income	744,904	809,425	845,694	876,272	920,912
As a % of Net Sales & Other Income	34.47%	34.45%	33.17%	32.04%	31.33%

Note: The LCBO refers to sales in three different ways: first, gross sales which include the Federal Goods and Services Tax and the Provincial Sales Tax; second, net sales which exclude the two sales taxes and any relevant discounts (e.g., the discounts provided to licensees by the LCBO); and third, net sales also excluding any sales through the LCBO Private Stock Program. The Net Sales and Other Income line listed in the table consists of net sales plus any other income (e.g., interest on investments). Gross sales are given in the LCBO Sales Channel Summary on page 42.

## Breakdown of Operating Expenses

	1998	1999	2000	2001	2002
Salaries and Benefits	218,631	231,486	244,399	266,929	272,594
Depreciation	24,666	25,580	29,582	40,546	44,260
Other Expenses	108,356	117,492	140,880	160,615	172,779
Total Operating Expenses	351,653	374,558	414,861	468,090	489,633

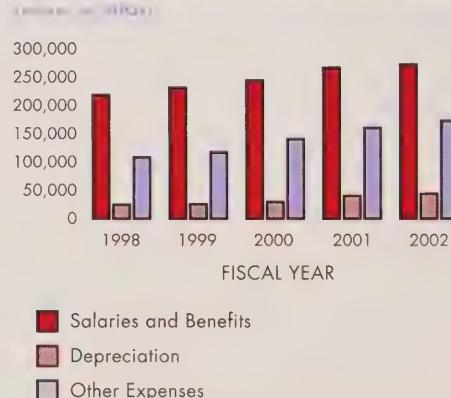
## Key Indicators: 1998-2002



## Financial Indicators: 1998-2002



## Operating Expenses: 1998-2002



The following tables show the breakdown of LCBO revenue payments for the last five years to the federal, provincial and municipal governments.

#### Ontario by Entitlement

	1998	1999	2000	2001	2002
Remitted by the Liquor Control Board: on account of profits	745,000	780,000	800,000	850,000	905,000
Remitted by the Liquor Control Board: Ontario Retail Sales Tax on sales through liquor	202,148	220,645	239,071	255,347	275,072
Remitted by the Alcohol and Gaming Commission:*					
on account of licence fees and permits	505,656	519,472	537,569	524,110	530,799
Remitted by others: **					
Ontario Retail Sales Tax on sales through Beer Stores and Ontario winery retail stores	160,321	168,281	177,406	177,302	186,308
Ontario Retail Sales Tax on sales through agency stores	2,839	3,305	3,672	3,847	4,027
<b>Total</b>	<b>1,615,964</b>	<b>1,691,703</b>	<b>1,757,718</b>	<b>1,810,606</b>	<b>1,901,206</b>

#### Ontario General Revenue Payments

	1998	1999	2000	2001	2002
Remitted by the Liquor Control Board: Excise taxes and Customs duties	247,413	249,639	267,137	278,430	284,520
Goods and Services Tax	68,642	66,192	69,718	79,056	84,885
Remitted by others: Excise taxes, GST and other duties/taxes	329,802	333,407	367,637	361,917	355,868
GST remitted on sales through agency stores	1,656	1,928	2,142	2,244	2,349
<b>Total</b>	<b>647,513</b>	<b>651,166</b>	<b>706,634</b>	<b>721,647</b>	<b>727,622</b>

#### Ontario Municipal Payments

	1998	1999	2000	2001	2002
Remitted by the Liquor Control Board: grants in lieu of realty and business taxes	5,897	3,680	3,569	3,671	3,423
<b>Total Revenue Payments</b>	<b>2,269,374</b>	<b>2,346,549</b>	<b>2,467,921</b>	<b>2,535,924</b>	<b>2,632,251</b>

Note: These amounts do not include corporation, realty and business taxes paid by distilleries, wineries, breweries and licensees. Ontario Retail Sales Tax collected by the licensees and agency stores on sales of beverage alcohol is excluded from these figures. The 2002 figures for Remitted by others are slightly understated due to several brewers not reporting financial information at the time of publication. Ontario Retail Sales Tax and Goods and Services Tax remitted on sales through agency stores are estimates.

### LCBO Volume Sales

Product Type	1998	1999	2000	2001	2002
Domestic Spirits	31,015	31,834	33,310	34,286	33,897
Domestic Spirit Coolers	12,150	16,168	17,361	16,789	25,791
Imported Spirits	14,059	15,175	17,491	18,851	20,866
Total Spirits	57,224	63,177	68,162	69,926	80,554
Domestic Wine	25,845	25,795	26,523	26,958	26,934
Domestic Wine Coolers	718	544	489	499	549
Imported Wine	49,617	52,952	57,010	60,626	63,339
Total Wine	76,180	79,291	84,022	88,083	90,822
Domestic Beer	55,763	61,377	65,618	67,677	75,045
Domestic Beer Coolers	24	38	339	627	363
Imported Beer	47,082	55,827	64,451	73,756	83,337
Total Beer	102,869	117,242	130,408	142,060	158,745
Total Domestic	125,515	135,756	143,640	146,836	162,579
Total Imported	110,758	123,954	138,952	153,233	167,542
Total	236,273	259,710	282,592	300,069	330,121

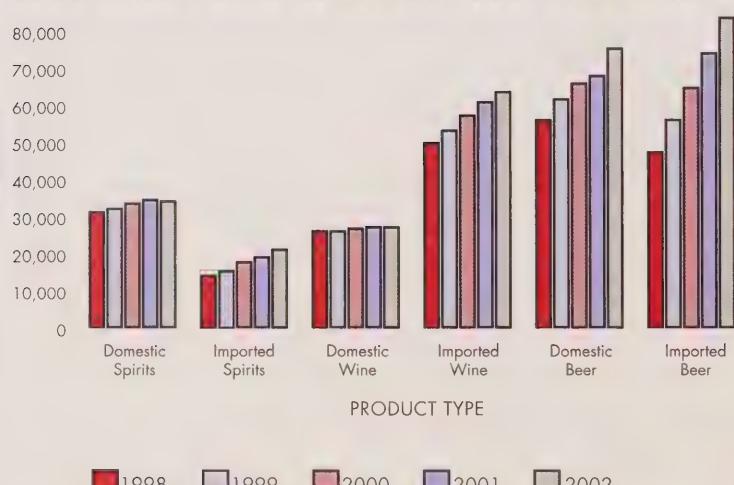
### Share of Volume Sales



Product Type	1998	1999	2000	2001	2002
Sales by Ontario Winery Stores	14,838	13,878	14,074	14,961	16,164
Sales by The Beer Store & On-site Stores	654,284	654,413	663,806	643,721	652,488

Note: LCBO beer sales figures include LCBO sales to The Beer Store (TBS). The 2002 figures for sales by TBS and on-site stores are unaudited and understate total sales due to several brewers not reporting financial statements at the time of publication.

### LCBO Volume Sales by Product Type 1998-2002



Note: In this chart, Domestic Spirits, Domestic Wine and Domestic Beer include sales of Coolers.

## Share of Value Sales



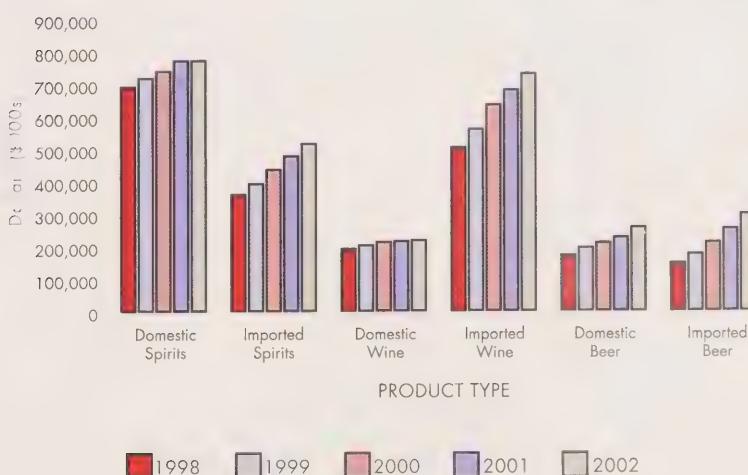
## LCBO Value Sales

Product Type	1998	1999	2000	2001	2002
Domestic Spirits	691,165	717,270	739,313	771,487	771,579
Domestic Spirit Coolers	61,093	80,716	84,579	82,354	127,038
Imported Spirits	358,363	391,872	435,093	476,972	514,728
<b>Total Spirits</b>	<b>1,110,621</b>	<b>1,189,858</b>	<b>1,258,985</b>	<b>1,330,813</b>	<b>1,413,345</b>
Domestic Wine	190,809	201,723	211,595	214,443	217,234
Domestic Wine Coolers	2,612	1,976	1,797	1,954	2,154
Imported Wine	503,290	559,624	635,112	680,993	731,605
<b>Total Wine</b>	<b>696,711</b>	<b>763,323</b>	<b>848,504</b>	<b>897,390</b>	<b>950,993</b>
Domestic Beer	170,538	194,149	208,882	225,612	256,579
Domestic Beer Coolers	83	144	1,035	2,076	1,209
Imported Beer	145,326	174,284	210,815	252,221	298,170
<b>Total Beer</b>	<b>315,947</b>	<b>368,577</b>	<b>420,732</b>	<b>479,909</b>	<b>555,958</b>
<b>Total Domestic</b>	<b>1,116,300</b>	<b>1,195,978</b>	<b>1,247,201</b>	<b>1,297,926</b>	<b>1,375,793</b>
<b>Total Imported</b>	<b>1,006,979</b>	<b>1,125,780</b>	<b>1,281,020</b>	<b>1,410,186</b>	<b>1,544,503</b>
Non-Liquor	3,479	3,914	5,389	6,213	7,839
<b>Total</b>	<b>2,126,758</b>	<b>2,325,672</b>	<b>2,533,610</b>	<b>2,714,325</b>	<b>2,928,135</b>

Product Type	1998	1999	2000	2001	2002
Sales by Ontario Winery Stores	114,805	111,765	118,219	123,739	136,587
Sales by The Beer Store	1,858,377	1,937,004	2,021,111	2,062,297	2,177,436

Note: Value sales listed above for the LCBO and Ontario winery stores consist of net sales. Sales values for The Beer Store consist of net sales plus GST. Category totals provided here include sales through VINTAGES and the LCBO Private Stock Program, and therefore do not match the totals found in the Product Trends sections of this Annual Report.

## LCBO Value Sales by Product Type: 1998-2002



Note: In this chart, Domestic Spirits, Domestic Wine and Domestic Beer include sales of Coolers.

## Product Listings

	1998	1999	2000	2001	2002
<b>Domestic</b>					
Spirits	516	539	518	542	486
Wine	518	538	536	499	481
Beer	346	385	403	407	426
<b>Imported</b>					
Spirits	542	601	586	641	672
Wine	963	1,085	1,192	1,113	1,164
Beer	213	218	261	276	258
<b>Total Regular Listings</b>	<b>3,098</b>	<b>3,366</b>	<b>3,496</b>	<b>3,478</b>	<b>3,487</b>
VINTAGES Wines and Spirits	3,037	3,235	3,569	3,108	2,858
Duty-Free Listings	213	210	235	212	224
Consignment Warehouse and Private Stock	5,240	5,241	6,106	6,225	5,444
<b>Total Product Listings</b>	<b>11,588</b>	<b>12,052</b>	<b>13,406</b>	<b>13,023</b>	<b>12,013</b>

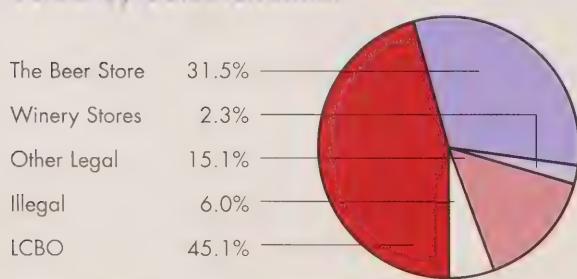
Note: The total number of regular products listed has been restated to reflect products listed for the entire fiscal year, rather than products listed in the LCBO Winter Price Book, as had previously been the case. Product listing figures for Consignment Warehouse and Private Stock are estimates based on invoices produced by Specialty Services. The total does not include products delisted during the fiscal year.

## LCBO Sales Channel Summary (in \$000s)

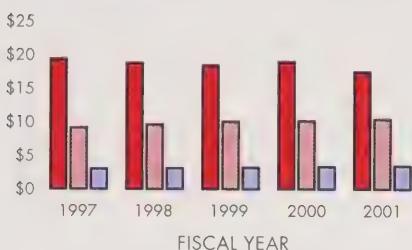
	1998	1999	2000	2001	2002
LCBO Total Sales	2,493,935	2,725,858	2,967,710	3,177,916	3,417,729
The Beer Store Total Sales	2,114,467	2,214,918	2,324,225	2,381,289	2,433,948
Winery Retail Stores Total Sales	136,618	133,001	140,681	147,178	162,539
<b>Other Channels</b>					
Legal	861,708	888,670	941,465	1,000,660	1,017,104
Homemade	60,918	63,567	59,070	49,025	48,013
De-alcoholized Beer	17,708	23,872	22,314	20,870	20,191
Illegal	583,780	542,896	455,801	405,918	432,435
<b>Grand Total</b>	<b>6,269,134</b>	<b>6,592,782</b>	<b>6,911,266</b>	<b>7,182,856</b>	<b>7,531,959</b>

Note: All figures above are shown in gross sales. The numbers included in the Other Channels category are estimates. LCBO and The Beer Store figures are slightly overstated due to reciprocal sales included in the totals. These sales are excluded in the chart below.

## Value by Sales Channel



## Average Retail Prices per Litre 1998-2002



■ Spirits  
■ Wine  
■ Beer

## Average ICBO Retail Prices

Product Type	1998	1999	2000	2001	2002
Spirits	\$19.41	\$18.83	\$18.47	\$19.03	\$17.55
Wine	\$9.15	\$9.63	\$10.10	\$10.19	\$10.47
Beer	\$3.07	\$3.14	\$3.23	\$3.38	\$3.50
Average Transaction Value per Customer	\$27.40	\$28.07	\$29.55	\$30.51	\$31.13

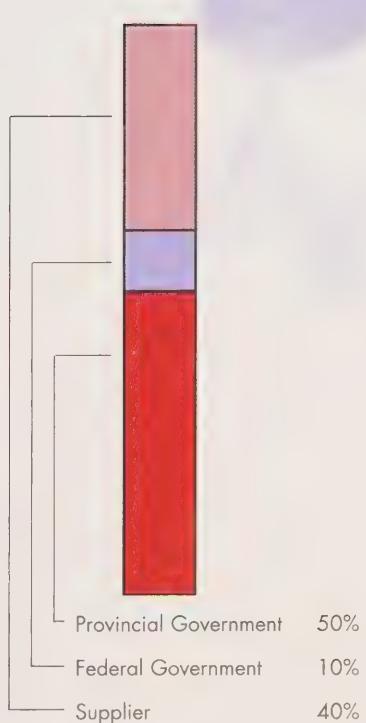
Note: Retail prices exclude GST and PST. For all categories, coolers are included.

## Revenue Distribution

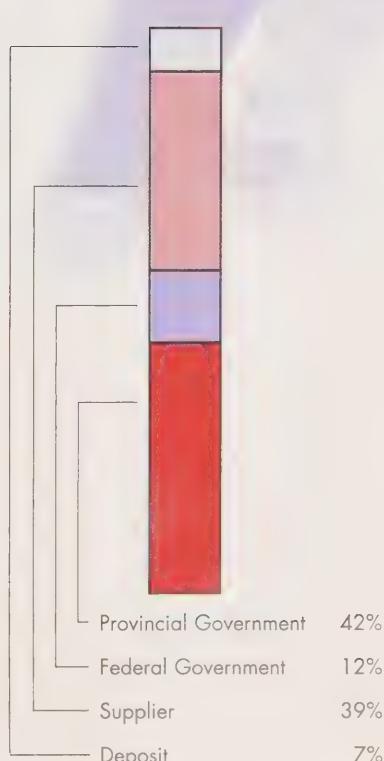
### SPIRITS



### WINE



### BEER



The following table shows LCBO volume sales by category for fiscal 2001-02.

#### Product Category Share

Canadian Spirits	1998	1999	2000	2001	2002
Canadian Whisky	33.5%	30.4%	29.9%	30.3%	25.6%
Canadian Rum	15.6%	14.5%	14.5%	14.7%	12.6%
Canadian Vodka	15.4%	14.3%	14.2%	14.6%	12.7%
Spirit Coolers	28.1%	33.5%	34.3%	32.9%	43.2%
Canadian Dry Gin	2.5%	2.2%	2.1%	2.1%	1.6%
Other	4.9%	5.1%	5.0%	5.4%	4.3%

#### Imported Spirits

Scotch	25.1%	23.8%	22.0%	20.2%	18.1%
Liqueur	19.1%	18.7%	18.2%	17.8%	15.6%
Miscellaneous Liquors	13.9%	13.2%	13.5%	13.6%	13.9%
Vodka	12.4%	13.9%	15.5%	16.0%	15.7%
French Brandy	9.3%	9.4%	9.0%	8.8%	8.0%
Spirit Coolers	0.9%	0.1%	0.6%	2.5%	8.6%
Other	19.3%	20.9%	21.2%	21.1%	20.1%

#### Canadian Wines

White Table	49.2%	48.6%	48.4%	48.4%	49.2%
Red Table	20.5%	22.3%	24.1%	25.7%	26.6%
7% Sparkling	6.0%	6.1%	6.2%	5.6%	5.5%
Sherry	5.5%	4.5%	4.4%	4.5%	4.6%
Wine Coolers	3.7%	3.8%	1.8%	1.7%	1.9%
Other	15.1%	14.7%	15.1%	14.1%	12.2%

#### Imported Wines

White Table	43.8%	42.3%	39.6%	37.6%	36.4%
Red Table	42.1%	43.2%	44.4%	46.3%	47.4%
Champagne	3.8%	4.1%	4.6%	3.5%	3.5%
Sherry	2.0%	1.3%	1.1%	1.0%	0.9%
Other	8.3%	9.1%	10.3%	11.6%	11.8%

#### Canadian Beer

Ontario Beer	93.5%	92.4%	91.3%	88.4%	87.3%
Other Canadian Beer	6.5%	7.6%	8.7%	11.6%	12.7%

#### Imported Beer

U.S. Beer	42.1%	41.8%	36.9%	31.0%	25.1%
Other Imported Beer	57.6%	57.9%	62.9%	68.8%	74.7%
Saké	0.3%	0.3%	0.2%	0.2%	0.2%

The following table shows detailed sales of wine by volume and value (LCBO sales only).

**Volume (000s litres)**

Product Type	1998	1999	2000	2001	2002
Red Wine	25,570	27,875	31,012	34,100	36,421
White Wine	34,093	34,483	34,913	35,189	35,786
Rosé Wine	2,493	2,853	3,264	2,984	2,934
Sparkling Wine	3,969	4,121	4,704	3,894	3,892
Fortified Wine	4,083	3,349	3,373	3,457	3,400
Wine Coolers	1,004	1,019	947	868	812
Other Wine	3,336	3,820	3,968	5,358	5,564
VQA Wines*	2,534	2,718	3,158	3,659	3,933

**Value (\$000s)**

Product Type	1998	1999	2000	2001	2002
Red Wine	258,225	296,921	347,051	390,289	430,867
White Wine	288,217	301,198	312,901	319,344	330,730
Rosé Wine	19,983	23,490	27,699	25,091	24,703
Sparkling Wine	46,598	52,373	70,310	52,914	53,161
Fortified Wine	40,035	32,277	32,995	34,691	33,918
Wine Coolers	4,660	4,812	4,454	3,970	3,594
Other Wine	16,382	26,106	30,024	42,858	45,354
VQA Wines*	31,146	34,827	41,259	47,770	50,205

\* VQA wine sales are reported in a separate consolidated total and also within each wine product category.

Note: Sales figures of wine by volume and value exclude Private Stock sales.

The following table shows LCBO Spirits sales by country of origin for fiscal 2001-02.

**Spirits 2001-02**

Country Name	NET SALES	LITRES
Canada	888,427,919	59,652,179
Great Britain	159,522,593	6,968,942
France	78,362,017	2,423,692
U.S.A.	53,417,065	2,719,507
Ireland	48,533,455	1,761,853
Sweden	35,770,191	1,742,694
Mexico	31,707,945	1,017,705
Italy	31,279,211	1,324,449
Finland	11,696,138	536,544
Russian Federation	7,917,063	358,379
Germany	7,332,785	288,700
Poland	6,668,690	289,888
Jamaica	4,434,275	165,044
Barbados	4,274,514	178,304
Greece	3,648,655	165,838
Netherlands	3,228,600	151,507
South Africa	2,788,124	118,997
Switzerland	2,353,689	79,679
Cuba	1,494,344	58,361
Portugal	1,352,776	46,636
Puerto Rico	1,057,333	43,932
Bermuda	937,388	34,392
Croatia	907,562	35,390
Spain	697,886	29,805
Austria	597,068	15,506
Hungary	580,633	25,039
Bahamas	493,004	20,136
Ukraine	440,098	16,870
Lebanon	436,198	17,360
Denmark	324,639	13,005
India	264,209	12,337
Belgium	235,694	8,989
People's Republic of China	219,439	11,309
Czech Republic	207,366	6,196
Guyana	133,002	4,668

**Spirits continued**

Chile	122,546	5,036
Trinidad	108,724	4,947
Brazil	93,346	3,690
Israel	78,875	3,336
Peru	10,725	302
Antigua	10,696	384
Cyprus	7,607	351
New Zealand	5,576	525
Philippines	3,904	176
Australia	3,193	36
Norway	2,403	71
Bolivia	1,529	48
Georgia	789	19
<b>Total</b>	<b>1,392,191,481</b>	<b>80,362,753</b>

The following table shows LCBO Wine sales by country of origin for fiscal 2001-02.

#### Wine 2001-02

Country Name	NET SALES	LITRES
Canada	215,184,277	27,412,570
France	198,533,890	17,090,675
Italy	150,817,847	14,636,427
Australia	100,528,741	6,901,252
U.S.A.	100,252,799	8,595,722
Chile	40,942,028	3,912,802
Germany	20,730,426	2,019,705
Portugal	20,367,988	1,730,536
Spain	19,521,491	1,584,389
South Africa	15,174,235	1,440,753
New Zealand	6,157,315	386,300
Argentina	5,883,131	597,745
Greece	4,431,776	569,658
Hungary	3,538,825	464,277
Bulgaria	3,137,749	411,765
Great Britain	2,442,124	493,429
Israel	803,917	76,845
Republic of Yugoslavia	770,328	97,355
Croatia	660,867	80,735
Romania	446,361	55,765
Austria	405,787	36,607
Mexico	349,599	34,003
Jamaica	300,912	34,472
Poland	284,707	19,017
Slovenia	217,263	29,259
Macedonia	197,095	26,433
Lebanon	184,814	5,986
Japan	163,914	16,546
Republic of Moldova	119,601	11,499
Denmark	92,134	8,506
Switzerland	84,129	3,973
Uruguay	82,329	6,394
Morocco	57,778	5,255
Czech Republic	39,030	5,229
Turkey	20,973	2,669
Belgium	15,530	869
Cyprus	13,550	1,065
People's Republic of China	9,685	849
Estonia	8,080	815
Algeria	6,427	1,123
Georgia	411	38
<b>Grand Total</b>	<b>912,979,863</b>	<b>88,809,312</b>

The following table shows LCBO Beer sales by country of origin for fiscal 2001-02.

#### Beer 2001-02

Country Name	NET SALES	LITRES
Canada	251,382,379	72,879,698
Netherlands	65,708,547	15,680,574
Mexico	59,275,991	14,543,003
U.S.A.	57,022,872	18,367,517
Germany	24,317,418	6,861,277
Great Britain	14,567,955	3,971,810
Ireland	12,085,670	2,772,989
Poland	7,552,302	2,257,705
Belgium	7,151,372	1,588,712
Denmark	6,652,687	2,045,770
Czech Republic	4,173,072	1,163,398
Japan	2,955,961	663,345
People's Republic of China	1,131,895	311,892
Jamaica	1,043,543	279,479
Trinidad	944,198	238,352
Singapore	584,207	181,335
Italy	517,190	135,038
Portugal	511,893	137,595
South Africa	358,649	110,013
New Zealand	337,468	93,056
Philippines	334,806	102,642
Croatia	181,108	48,933
Ukraine	120,867	33,710
Slovakia	120,787	38,026
Greece	118,122	30,520
Cuba	112,457	27,105
Russian Federation	82,224	22,902
Cyprus	58,995	13,984
India	58,150	14,573
Australia	45,704	10,618
Spain	37,421	10,102
Panama	33,602	9,202
Austria	33,399	6,315
France	27,290	3,620
Lebanon	24,390	5,841
Thailand	10,519	2,484
Israel	4,476	1,191
Brazil	1,136	482
<b>Grand Total</b>	<b>519,680,722</b>	<b>144,664,808</b>

Note: Net value represents net sales, excluding Private Stock sales. In fiscal 2001-02, the LCBO sold products from 68 different countries.



# AUDITOR'S REPORT

## TO THE LIQUOR CONTROL BOARD OF ONTARIO AND TO THE MINISTER OF CONSUMER AND BUSINESS SERVICES

I have audited the balance sheet of the Liquor Control Board of Ontario as at March 31, 2002 and the statements of income and retained income and of cash flows for the year then ended. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Board as at March 31, 2002, the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Erik Peters, FCA  
Provincial Auditor  
Toronto, Ontario  
June 12, 2002

### Balance Sheet As at March 31, 2002

Assets (in \$000s)	2002	2001
<b>Current</b>		
Cash and cash equivalents	80,108	47,961
Accounts receivable, trade and others	19,298	15,649
Inventories	226,285	260,619
Prepaid expenses	8,337	6,086
	<b>334,028</b>	<b>330,315</b>
<b>Long-term</b>		
Capital assets (Note 5)	197,895	186,996
	<b>531,923</b>	<b>517,311</b>

### Liabilities and Retained Income

<b>Current</b>		
Accounts payable and accrued liabilities	216,518	218,836
Current portion of accrued benefit obligation (Note 3)	3,525	4,202
	<b>220,043</b>	<b>223,038</b>
<b>Long-term</b>		
Accrued benefit obligation (Note 3)	28,024	26,329
Retained income	283,856	267,944
	<b>531,923</b>	<b>517,311</b>

### Commitments and Contingencies (Notes 6 and 8)

See accompanying notes to financial statements.

Approved by:

Andrew S. Brandt  
Chair and Chief Executive Officer

Thom A. Bennett  
Member; Chair, Audit  
and Governance Review Committee

## Statement of Income and Retained Income

Year ended March 31, 2002

(in \$000s)	2002	2001
<b>Sales and other income</b>	<b>2,939,563</b>	<b>2,734,937</b>
<b>Costs and expenses:</b>		
Cost of sales	1,529,018	1,390,575
Retail stores and marketing	344,759	339,017
Warehousing and distribution	54,137	46,565
Administration	46,477	41,962
Amortization	44,260	40,546
	<b>2,018,651</b>	<b>1,858,665</b>
Net income for the year	920,912	876,272
Retained income, beginning of year	267,944	259,622
Workers Compensation Benefits (Note 3)	—	(17,950)
	<b>1,188,856</b>	<b>1,117,944</b>
Deduct: Dividend paid to Province of Ontario	901,000	846,000
Deduct: Payment to municipalities on behalf of the Province of Ontario (Note 9)	4,000	4,000
	<b>905,000</b>	<b>850,000</b>
<b>Retained income, end of year</b>	<b>283,856</b>	<b>267,944</b>

See accompanying notes to financial statements.

## Statement of Cash Flows Year ended March 31, 2002

(in \$000s)	2002
<b>Cash provided from operations</b>	
Net income	920,912
Amortization	44,260
Loss on sale of capital assets	200
	<b>965,372</b>
	<b>917,010</b>
<b>Non-cash balances related to operations</b>	
Working capital	26,116
Accrued benefit obligation	1,018
	<b>992,506</b>
	<b>922,438</b>
<b>Cash used for investment activities</b>	
Purchase of capital assets	(55,735)
Proceeds from sale of capital assets	376
	<b>(55,359)</b>
	<b>(55,610)</b>
<b>Cash used for financing activities</b>	
Dividend paid to Province of Ontario	(901,000)
Payment to municipalities on behalf of the Province of Ontario	(4,000)
	<b>(905,000)</b>
	<b>(850,000)</b>
Increase in cash during the year	32,147
Cash and cash equivalents, beginning of year	47,961
<b>Cash and cash equivalents, end of year</b>	<b>80,108</b>
	<b>47,961</b>

See accompanying notes to financial statements.

## 1. Nature of the Corporation

The Liquor Control Board of Ontario (Board) is a corporation without share capital incorporated under the *Liquor Control Act*, R.S.O. 1990, Chapter L.18. The corporation is a government enterprise responsible for regulating the production, importation, distribution and sale of alcoholic beverages in the Province of Ontario. As an Ontario Crown Corporation, the Board is exempt from income taxes under Section 149(1)(d) of the *Canadian Income Tax Act*. The Board transfers most of its profits to the Province of Ontario's Consolidated Revenue Fund in the form of a dividend.

## 2. Significant Accounting Policies

### (a) Basis of Accounting

The Board's financial statements are prepared in accordance with Canadian generally accepted accounting principles.

### (b) Inventories

Inventories are valued at the lower of cost and net realizable value with cost being determined by the moving average cost method.

### (c) Capital Assets

Major capital expenditures with a future useful life beyond the current year are capitalized at cost and are amortized on a straight-line basis according to their estimated useful lives, as follows:

Buildings	20 years
Furniture and Fixtures	5 years
Leasehold Improvements	5 years
Computer Equipment	3 years

Minor capital expenditures and the expenditures for repairs and maintenance are charged to income.

### (d) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### (e) Cash and Cash Equivalents

Cash and cash equivalents comprise cash, and highly liquid investments with original maturity dates of less than 90 days.

The Board's investment policy restricts short-term investments to high liquidity, high grade money market instruments such as federal/provincial treasury bills, banker's acceptances and term deposits.

## 3. Non-pension Employee Future Benefits

The Board is responsible for the accrued employee termination payments.

Also effective April 1, 2000, the Board recognized its workers compensation obligation in the amount of \$17.9 million which was not funded. Fiscal 2001 was the first year of recognizing this obligation in accordance with the Canadian Institute of Chartered Accountants' new recommendations for accounting for employee future benefits. The new recommendations had been adopted on a retroactive basis without restatement. The impact on prior years had been reflected as an adjustment to opening retained earnings. The recognized amount was determined from actuarial calculations provided by the Workplace Safety and Insurance Board.

In fiscal 2002, the cost of these employee future benefits was \$5.8 million (2001 – \$5.2 million) and is included in Costs and expenses in the Statement of Income and Retained Income. The accrued benefit obligation as at March 31, 2002 is \$31.5 million (2001 – \$30.5 million) of which \$3.5 million (2001 – \$4.2 million) is classified as a current liability.

The cost of post-retirement, non-pension employee benefits is paid by Management Board Secretariat and is not included in the Statement of Income and Retained Income.

## 4. Pension Plan

The Board provides pension benefits for all its permanent employees (and to non-permanent employees who elect to participate) through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund) which are multi-employer defined benefit pension plans established by the Province of Ontario. These plans are accounted for as defined benefit pension plans as the Board has insufficient information to apply defined benefit plan accounting. The expense represents the Board's contributions to the plans during the year.

In fiscal 2002, the expense was \$10.1 million (2001 – \$9.8 million) and is included in Costs and expenses in the Statement of Income and Retained Income.

## 5. Capital Assets

(in \$000's)	2002		2001	
	Cost	Accumulated Amortization	Net Book Value	Value
Land	13,737	—	13,737	13,835
Buildings	285,851	193,147	92,704	99,177
Furniture and fixtures	42,093	29,465	12,628	8,091
Leasehold improvements	125,812	80,715	45,097	32,480
Computer equipment	102,818	69,089	33,729	33,413
	<b>570,311</b>	<b>372,416</b>	<b>197,895</b>	<b>186,996</b>

## 6. Lease Commitments

The Board is committed under operating leases on leased premises with future minimum rental payments due as follows:

	(in \$000s)
2003	30,625
2004	28,173
2005	25,166
2006	22,672
2007	20,716
Thereafter	150,032
	<b>277,384</b>

## 7. Hedging

The Board has entered into forward foreign exchange contracts to manage the foreign exchange risk associated with its purchases from foreign suppliers. A forward foreign exchange contract is an agreement between two parties to set exchange rates in advance.

As at March 31, 2002, the Board had \$3,702,693 (2001 – \$1,469,069) forward foreign exchange contracts outstanding.

Credit risk is the risk that a party to a forward foreign exchange contract will fail to discharge its obligation and cause the Board to incur financial loss. The Board minimizes credit risk by only dealing with major Canadian Chartered banks and Canadian subsidiaries of major foreign banks.

## 8. Contingencies

The Board is involved in various legal actions arising out of the ordinary course and conduct of business. The outcome and ultimate disposition of these actions are not determinable at this time. Accordingly, no provision for these actions is reflected in the financial statements. Settlements, if any, concerning these contingencies will be accounted for in the period in which the settlement occurs.

## 9. Payment to Municipalities

During fiscal 2002, in accordance with Section 5(2) of the *Liquor Control Act, 1990*, the Board was directed by Cabinet to contribute \$4.0 million (2001 – \$4.0 million) to assist municipalities with their glass recycling costs. Cabinet further directed the Board to contribute \$5 million annually in each of the next four years.



Members of the LCBO Board, from left to right: John C. Hopper, Gayle Christie, Perry Miele, Merle A. Jacobs and Thom A. Bennett. Absent: John S. Lacey.

## MEMBERS OF THE LCBO BOARD, LIKE THOSE OF OTHER GOVERNMENT AGENCIES, BOARDS AND COMMISSIONS, ARE APPOINTED BY THE SITTING GOVERNMENT THROUGH ORDERS-IN-COUNCIL. APPOINTMENTS, UP TO FIVE YEARS, ARE SOMETIMES RENEWED.

### ANDREW S. BRANDT:

Appointed Chair and Chief Executive Officer February 6, 1991. Term expires February 2003.

Re-appointed in 2000 for a fourth three-year term as Chair and CEO, Mr. Brandt came to the LCBO after a long and distinguished career in the private and public sectors. He began his public-service career in Sarnia, where he served on City Council for almost a decade, including three terms as mayor. In 1981, he was elected to the Ontario Legislature as MPP for Sarnia

and became, successively, Parliamentary Assistant to the Minister of Labour, Minister of the Environment, and Minister of Industry and Trade. In 1987, he was named Leader of the Ontario Progressive Conservative Party, a post he held until 1990. In the private sector, Mr. Brandt ran a successful wholesale and retail musical instrument business for many years. He is also an active and award-winning volunteer in several community organizations, including the United Way, Rotary Club, Kiwanis Club and Lambton College Foundation. One of

Canada's top 200 CEOs, according to *Financial Post Magazine*, he was named Business Support Person of the Year by the Ontario Grape and Wine Festival in 1997. He has also been appointed an Officer of France's Ordre du Mérite Agricole and a Chevalier in the Confrérie des Chevaliers du Tastevin, and was admitted to the roll of the Keepers of the Quaich in Scotland. In 2001, he was one of six finalists for the 18th Annual Marketer of the Year Award, given by the Toronto chapter of the American Marketing Association.

**THOM A. BENNETT:**

Appointed October 11, 2000.  
Term expires October 2003.

President and owner of Bennett Insurance Agency Ltd., Mr. Bennett is a seasoned senior executive with a proven business management background and specific expertise in the field of employee benefits. He has served as Chair of the Ontario Video Lottery Corporation and Vice Chair of the Ontario Lottery Corporation, where he took part in a major restructuring program designed to enhance the corporation's efficiency and profitability. A resident of Ottawa, he sits on the Board of Directors of the University of Ottawa Heart Institute; has coached little league baseball in Nepean; has served as Secretary of the Kiwanis Club of South Ottawa; and was a Cub Leader with the Boy Scouts of Canada.

**GAYLE CHRISTIE:**

Appointed June 13, 2001.  
Term expires June 2004.

Ms. Christie is a Toronto government relations consultant who advises private-sector clients on how to work with municipalities, drawing on her experience as a former trustee, councillor and mayor of the city of York, which was amalgamated into Toronto in 1997. As mayor of York from 1978-82, she established the city's first internal audit committee and instituted other reforms to increase productivity and accountability. She then spent eight years with accounting firm Clarkson Gordon (now part of Ernst & Young), further developing her skills. In addition to her consultancy, she sits on several boards, including Humber River Regional Hospital, Runnymede Chronic Care Hospital and Yorktown Community Services.

**JOHN C. HOPPER:**

Appointed September 8, 1997.  
Term expires September 2003.

A native of Ottawa, Mr. Hopper began work in automobile sales there in 1963. He moved to North Bay in 1971 to establish John C. Hopper Pontiac Buick, and is today President and Dealer Principal of Hopper Automobile Ltd., and President of Saturn of North Bay. He was a founding member of the North Bay

Automobile Dealers Association and the Northern Ontario Automobile Dealers Association, and past president of the Ontario Automobile Dealers Association. A former North Bay city councillor, he has a long history of community service: he is a member of the Masonic Lodge; a member and past president of both the Rorab Shrine Club and North Bay Kiwanis Club; a member of the Northern Ontario Cancer Research Foundation; a member of the Board of Governors of Thornele University in Sudbury; and he chaired the \$7,000,000 fundraising campaign for North Bay's new General Hospital, while also serving on its Advisory Board. He was the Kiwanis Club's Citizen of the Year in 1993. In 1998, he was elected a Mel Osbourne Fellow to the Kiwanis Foundation of Canada.

**MERLE A. JACOBS:**

Appointed December 17, 1997.  
Term expires December 2003.

Dr. Jacobs began her career as a nurse, eventually becoming a nurse manager in the department of psychiatry at a Toronto hospital. She has also pursued her education, and has completed a PhD in Sociology at York University. Her professional experience and studies have shared a focus on mental health, as does much of her extensive volunteer work. She has maintained her skills as a registered nurse by working at the Women's Inpatient Unit of the Centre for Addiction and Mental Health. She has also served on the Board of Toronto's Queen Street Mental Health Centre and is a member of the Registered Nurses Association of Ontario's Mental Health Interest Group, as well as its Policy Committee. She is a director of Roots Cultural Foundation and Royal Business Training Centre. As a practising nurse psychotherapist and owner of The Lawrence Centre, Dr. Jacobs has also developed her business planning and budgeting skills, as well as her knowledge of human resources issues. She is now an Assistant Professor in York University's Department of Sociology. She recently edited the 2002 book, *Women at the Margins: Is Anyone Listening?*, a reader focusing on gender equality in the workplace and in society.

**JOHN S. LACEY:**

Appointed June 26, 1996.  
Appointed Vice Chair June 25, 2001. Term expired June 2002.

Mr. Lacey is a veteran of the retail, hospitality and communications industries, with nearly 35 years of experience with companies such as Oshawa Group Ltd., WIC Western International Communications Ltd., Scott's Hospitality Inc., Molson, Loblaws, and the Holiday Inn and Marriott hotel chains. Now Executive Chairman of Loewen Group Inc., Mr. Lacey is a graduate of the Harvard Business School who emigrated to Canada from South Africa in 1978 and became a Canadian citizen in 1983. Mr. Lacey is also a director of Telus and Clarica, and Chairman of Doncaster Racing Ltd. His community interests include the Centre for Studies of Children at Risk, which is affiliated with McMaster University and Chedoke-McMaster Hospitals.

**PERRY MIELE:**

Appointed April 3, 2002.  
Term expires April 2005.

Chair and Partner of Financial Task Force Inc., a Canadian merchant banking firm in Toronto, Mr. Miele has more than 20 years of senior-level experience as a strategic builder of businesses across a broad range of categories. After serving as chief of staff to the Hon. Pat Carney during NAFTA negotiations, he joined integrated marketing services company Gingko in 1987 as a partner and quickly helped the firm to grow. The company merged with DraftWorldwide of Chicago in 1988 and he became President of the International Group, responsible for all operations outside the United States, consisting of 36 offices operating in 24 countries. He also headed the company's international expansion plan with a combination of strategic acquisitions and growth within existing operations. Well versed in consumer insight and research methodology, Mr. Miele has worked in every marketing discipline, including advertising, sales promotion, public relations, direct marketing, telemarketing and digital marketing.



# USEFUL FACTS

(FOR THE FISCAL YEAR ENDED MARCH 31, 2002, UNLESS OTHERWISE NOTED)

## *The Marketplace*

599	Number of LCBO stores serving communities across Ontario	141	Number of LCBO stores offering 500-1,000 brands for sale	333	Percentage return on taxpayers' equity in 2001-02
105	Number of LCBO agency stores serving Ontario communities without large enough populations to support a regular LCBO store	19	Number of LCBO stores offering fewer than 500 brands for sale	31.5	The LCBO's profit margin, expressed as a percentage, in 2001-02
		13,104	Number of product tastings conducted in LCBO stores in 2001-02	16.7	The LCBO's operational expenses as a percentage of net sales for 2001-02
849	Number of Beer Stores, Ontario winery stores, on-site distillery and brewery outlets and privately operated duty-free stores in Ontario	1	Percentage of customers in a February 2002 survey who said they were dissatisfied with service in LCBO stores	\$275 million	Amount the LCBO transferred to the provincial government in Provincial Sales Tax (PST) in 2001-02
45.1	Percentage share of Ontario beverage alcohol market, in dollar value, held by the LCBO	94 million	Total number of transactions in LCBO stores in 2001-02	\$369 million	Amount the LCBO transferred to the federal government in GST, excise taxes and customs duties in 2001-02
\$7.5 billion	Total estimated value of Ontario's beverage alcohol market	28.5	Percentage of all LCBO transactions paid by debit card	\$31 million	Amount the LCBO spent on capital improvements to its stores (renovations, relocations, etc.) in 2001-02
\$432 million	Estimated value of Ontario's illegal alcohol market	24	Percentage of all LCBO transactions paid by credit card		

## *Our Stores*

78	Number of LCBO stores offering more than 2,500 brands for sale	\$2.9 billion	The LCBO's net sales and other income in 2001-02
196	Number of LCBO stores offering 1,500-2,500 brands for sale	\$905 million	Dividend the LCBO transferred to the Government of Ontario for 2001-02 (excluding taxes)
165	Number of LCBO stores offering 1,000-1,500 brands for sale	\$4.1 billion	Amount the LCBO has transferred the last five fiscal years combined (excluding taxes)

## *Our Financial Performance*

## *Products and Pricing*

12,013	Total number of products available through LCBO stores, catalogues and private ordering service in 2001-02
2,858	Number of new VINTAGES products offered in stores and through the <i>Classics Catalogue</i> in 2001-02



# STATISTICAL INSERT

FOR LCBO ANNUAL REPORT FISCAL 2001-2002

## Product Listings

Domestic	1998	1999	2000	2001	2002
Canadian Whisky	160	168	158	163	153
Canadian Blended Rums	112	123	105	109	87
Canadian Gin	20	22	22	19	16
Canadian Vodka	70	75	70	75	61
Canadian Brandy	15	15	18	16	14
Canadian Spirit Coolers	56	46	51	64	57
Fruit Spirits	1	1	0	0	0
Miscellaneous Liquors	22	23	24	27	30
Canadian Liqueurs	48	53	55	56	56
Ontario Wines	465	477	474	448	429
Ontario Wine Coolers	5	4	5	7	6
Other Canadian Wines	27	39	43	32	40
Canadian Cider	21	18	14	12	6
Canadian Beer (incl. Beer Coolers)	346	385	403	407	426
Alcohol	3	4	3	3	2
Miniatures	6	6	9	7	7
Bitters	3	3	3	3	3
<b>Total Domestic</b>	<b>1,380</b>	<b>1,462</b>	<b>1,457</b>	<b>1,448</b>	<b>1,393</b>
<b>Imported</b>					
Scotch Whisky	127	135	108	119	112
Irish Whiskey	8	10	11	10	9
American Whiskey	21	21	21	22	24
Gin	14	16	17	15	15
Rum	18	16	20	29	24
Vodka	38	41	47	53	63
Tequila	9	10	19	23	19
Brandy	72	107	100	101	113
Fruit Spirits	4	2	3	3	0
Miscellaneous Liquors	67	78	86	96	128
Liqueurs	134	135	125	127	124
Wines	958	1,080	1,187	1,111	1,155
Beer and Saké	210	216	256	276	252
Miniatures	19	20	18	28	26
Coolers	9	7	11	7	22
Bitters	10	10	10	10	8
<b>Total Imported</b>	<b>1,718</b>	<b>1,904</b>	<b>2,039</b>	<b>2,030</b>	<b>2,094</b>
<b>Total Regular Listings</b>	<b>3,098</b>	<b>3,366</b>	<b>3,496</b>	<b>3,478</b>	<b>3,487</b>
Vintages Wines and Spirits	3,037	3,235	3,569	3,108	2,858
Duty-Free Listings	213	210	235	212	224
Consignment Warehouse and Private Stock	5,240	5,241	6,106	6,225	5,444
<b>Total Product Listings</b>	<b>11,588</b>	<b>12,052</b>	<b>13,406</b>	<b>13,023</b>	<b>12,013</b>

Note: Canadian blended brandy, which in previous years was listed separately, is now included in the Canadian brandy listings. Product listing figures for Consignment Warehouse and Private Stock are estimates based on invoices produced by Specialty Services.

**Sales Channel Summary (value in \$000s)**

LCBO	1998	1999	2000	2001	2002
Retail Sales	2,022,638	2,209,024	2,390,949	2,556,340	2,752,978
Licensee Sales	347,083	370,496	396,879	419,731	417,478
Agency Sales	25,059	29,180	32,420	33,981	35,578
Duty-Free/Warehouse	17,318	20,696	34,454	35,943	35,442
Duty-Free/LCBO	13,367	13,028	303	0	0
TBS Sales	64,891	80,438	109,692	128,848	172,416
Other Sales	3,579	2,996	3,013	3,073	3,837
<b>Total</b>	<b>2,493,935</b>	<b>2,725,858</b>	<b>2,967,710</b>	<b>3,177,916</b>	<b>3,417,729</b>

**The Beer Store**

Retail & Licensee Sales	2,114,467	2,214,918	2,324,225	2,381,289	2,433,948
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**Winery Stores**

Retail Sales	136,618	133,001	140,681	147,178	162,539
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**Other Channels**
**Legal:**

Cross-Border Exempt	153,479	136,213	155,818	208,614	210,856
Cross-Border Declared	3,054	3,862	3,124	2,658	2,526
Brew Pubs	1,737	1,652	1,950	1,624	1,548
Wine Pubs	3,952	4,233	4,722	4,647	4,675
U-Brew Beer	149,534	157,633	163,959	174,425	185,265
U-Brew Wine	549,952	585,077	611,892	608,692	612,234
<b>Total</b>	<b>861,708</b>	<b>888,670</b>	<b>941,465</b>	<b>1,000,660</b>	<b>1,017,104</b>

**Homemade:**

Wine	44,071	45,807	40,597	30,702	30,892
Beer	16,847	17,760	18,473	18,323	17,121
<b>Total</b>	<b>60,918</b>	<b>63,567</b>	<b>59,070</b>	<b>49,025</b>	<b>48,013</b>

**De-alcoholized Beer:**

17,708	23,872	22,314	20,870	20,191
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**Illegal:**

Smuggling	393,991	353,344	279,883	270,735	299,865
Wine Manufacturing	189,789	189,552	175,918	135,183	132,570
<b>Total</b>	<b>583,780</b>	<b>542,896</b>	<b>455,801</b>	<b>405,918</b>	<b>432,435</b>
<b>Grand Total</b>	<b>6,269,134</b>	<b>6,592,782</b>	<b>6,911,266</b>	<b>7,182,856</b>	<b>7,531,959</b>

Note: All figures above are shown in gross sales. The numbers included in the Other Channels category are estimates. The Beer Store and Winery store sales data were supplied by the Brewers of Ontario and individual Ontario wineries.

## Retail Price Breakdowns

### Spirits

Examples as at March 31, 2002 for 750 mL bottle in Canadian dollars (40% Alcohol)	Imported U.S.	Imported Non - U.S.	Domestic
Payment to Supplier	\$3.5024	\$3.4904	\$3.7102
Federal Excise Tax	\$3.3198	\$3.3198	\$3.3198
Federal Import Duty	\$0.0000	\$0.0148	\$0.0000
Freight	\$0.1669	\$0.1669	\$0.1669
<b>Total Landed Cost</b>	<b>\$6.9891</b>	<b>\$6.9919</b>	<b>\$7.1969</b>
LCBO Markup	\$10.1412	\$10.1383	\$9.9317
LCBO Bottle Levy	\$0.2175	\$0.2175	\$0.2175
LCBO Environment Fee	\$0.0893	\$0.0893	\$0.0893
LCBO Rounding Revenue	\$0.0000	\$0.0000	\$0.0000
<b>Basic Price</b>	<b>\$17.44</b>	<b>\$17.44</b>	<b>\$17.44</b>
Goods and Services Tax	\$1.22	\$1.22	\$1.22
Provincial Retail Sales Tax	\$2.09	\$2.09	\$2.09
<b>Consumer Price</b>	<b>\$20.75</b>	<b>\$20.75</b>	<b>\$20.75</b>

### Revenue Distribution

Supplier (including freight)	\$3.67	\$3.66	\$3.88
Government of Canada	\$4.54	\$4.55	\$4.54
Government of Ontario	\$12.54	\$12.54	\$12.33

### Wines

Examples as at March 31, 2002 for 750 mL bottle in Canadian dollars	Imported U.S.	Imported Non - U.S.	Domestic 100% Ont.
Payment to Supplier	\$3.6999	\$3.6345	\$4.0272
Federal Excise Tax	\$0.3842	\$0.3842	\$0.3842
Federal Import Duty	\$0.0000	\$0.0281	\$0.0000
Freight	\$0.1669	\$0.2038	\$0.0000
<b>Total Landed Cost</b>	<b>\$4.2510</b>	<b>\$4.2506</b>	<b>\$4.4114</b>
LCBO Markup	\$2.7206	\$2.7204	\$2.5586
LCBO Wine Levy	\$1.1250	\$1.1250	\$1.1250
LCBO Bottle Levy	\$0.2175	\$0.2175	\$0.2175
LCBO Environment Fee	\$0.0893	\$0.0893	\$0.0893
LCBO Rounding Revenue	\$0.0000	\$0.0000	\$0.0000
<b>Basic Price</b>	<b>\$8.40</b>	<b>\$8.40</b>	<b>\$8.40</b>
Goods and Services Tax	\$0.59	\$0.59	\$0.59
Provincial Retail Sales Tax	\$1.01	\$1.01	\$1.01
<b>Consumer Price</b>	<b>\$10.00</b>	<b>\$10.00</b>	<b>\$10.00</b>

### Revenue Distribution

Supplier (including freight)	\$3.87	\$3.84	\$4.03
Government of Canada	\$0.97	\$1.00	\$0.97
Government of Ontario	\$5.16	\$5.16	\$5.00

## Beer

Examples as at March 31, 2002  
for a case of 24 x 341 mL bottles  
in Canadian dollars

	Imported U.S.	Imported Non - U.S.	Domestic
Payment to Supplier	10.7691	10.7691	12.1053
Federal Excise Tax	2.2903	2.2903	2.2903
Federal Import Duty	0.0000	0.0000	0.0000
Freight	0.5248	0.5248	0.5248
<b>Total Landed Cost</b>	<b>13.5842</b>	<b>13.5842</b>	<b>14.9204</b>
LCBO In-store COS	4.9595	4.9595	4.9595
LCBO Out-of-store COS	1.3422	1.3422	0.0000
LCBO Markup	4.1779	4.1779	4.1779
LCBO Bottle Levy	1.4404	1.4404	1.4404
LCBO Environment Fee	0.0000	0.0000	0.0000
LCBO Rounding Revenue	0.0000	0.0000	0.0000
<b>Basic Price</b>	<b>25.50</b>	<b>25.50</b>	<b>25.50</b>
Goods and Services Tax	\$1.79	\$1.79	\$1.79
Provincial Retail Sales Tax	\$3.06	\$3.06	\$3.06
Container Deposit	\$2.40	\$2.40	\$2.40
<b>Consumer Price</b>	<b>32.75</b>	<b>32.75</b>	<b>32.75</b>
Supplier (including freight)	\$11.29	\$11.29	\$12.63
Government of Canada	\$4.08	\$4.08	\$4.08
Government of Ontario	\$14.98	\$14.98	\$13.64
Container Deposit	\$2.40	\$2.40	\$2.40

## Revenue Distribution

	Domestic Spirits	Domestic Wine	Domestic Beer
Supplier	19%	40%	39%
Federal Government	22%	10%	12%
Provincial Government	59%	50%	42%
Deposit			7%

Note: COS refers to the LCBO's cost of service. The container deposit applies only to products which can be returned for a container refund.

## Eleven-Year Financial Performance Review

(value in \$000s)

	2002	2001	2000	1999	1998
<b>Statement of Earnings</b>					
Sales and Other Income	\$2,939,563	\$2,734,937	\$2,549,458	\$2,349,832	\$2,160,843
Cost of Sales	\$1,529,018	\$1,390,575	\$1,288,903	\$1,165,849	\$1,064,286
Gross Profit	\$1,410,545	\$1,344,362	\$1,260,555	\$1,183,983	\$1,096,557
Per Cent	47.98%	49.16%	49.44%	50.39%	50.75%
Operating Expenses	\$489,633	\$468,090	\$414,861	\$374,558	\$351,653
Net Income	\$920,912	\$876,272	\$845,694	\$809,425	\$744,904
<b>Statement of Cash Flow</b>					
Cash Flow from Operations	\$965,372	\$917,010	\$876,196	\$834,465	\$769,507
Change in Working Capital	\$27,134	\$5,428	(\$15,198)	(\$8,651)	(\$29,537)
Cash Used for Investing Activities	(\$55,359)	(\$55,610)	(\$54,443)	(\$40,265)	(\$25,524)
Cash Used for Provincial Transfers	(\$905,000)	(\$850,000)	(\$800,000)	(\$780,000)	(\$745,000)
Decrease/Increase in Cash During the Year	\$32,147	\$16,828	\$6,555	\$5,549	(\$30,554)
<b>Financial Position</b>					
Current Assets	\$334,028	\$330,315	\$308,724	\$275,774	\$230,720
Current Liabilities	\$248,067	\$249,367	\$221,226	\$210,029	\$179,175
Working Capital	\$85,961	\$80,948	\$87,498	\$65,745	\$51,545
Fixed Assets	\$197,895	\$186,996	\$172,124	\$148,183	\$132,958
Total Assets	\$531,923	\$517,311	\$480,848	\$423,957	\$363,678
<b>Financial Ratios</b>					
Profit Margin	31.53%	32.28%	33.38%	34.80%	35.03%
Return on Shareholders' Equity	333.78%	332.19%	357.17%	406.31%	403.63%
Current Ratio	1.35	1.32	1.40	1.31	1.29
<b>Statistics</b>					
Inventory Turnover	5.90	5.25	5.21	5.38	5.53
Number of Permanent Employees	3,225	3,174	3,074	3,014	2,934
Sales per Permanent Employee	\$905,518	\$855,175	\$824,206	\$771,623	\$724,866
Number of Stores	599	601	602	600	596
Number of Regular Products Listed	3,487	3,478	3,496	3,366	3,098

Note: Sales per Permanent Employee are stated in absolute dollars, not in thousands of dollars.

1997	1996	1995	1994	1993	1992
<b>Statement of Earnings</b>					
\$2,013,873	\$1,909,804	\$1,808,518	\$1,764,731	\$1,786,479	\$1,833,386
\$988,386	\$919,268	\$858,190	\$832,106	\$841,060	\$851,539
\$1,025,487	\$990,536	\$950,328	\$932,625	\$945,419	\$981,847
50.92%	51.87%	52.55%	52.85%	52.92%	53.55%
\$324,457	\$323,819	\$313,029	\$333,716	\$332,953	\$332,439
\$701,030	\$666,717	\$637,299	\$598,909	\$612,466	\$652,458
<b>Statement of Cash Flow</b>					
\$723,197	\$687,663	\$655,198	\$619,979	\$635,298	\$675,162
\$49,819	\$9,659	\$5,473	(\$15,824)	(\$8,694)	\$6,162
(\$19,424)	(\$26,256)	(\$26,895)	(\$14,753)	(\$21,075)	(\$25,754)
(\$730,000)	(\$680,000)	(\$630,000)	(\$585,000)	(\$615,000)	(\$675,000)
\$23,592	(\$8,934)	\$3,776	\$4,402	(\$9,471)	(\$19,430)
<b>Financial Position</b>					
\$256,209	\$239,516	\$229,541	\$201,204	\$192,955	\$207,155
\$203,647	\$160,727	\$132,159	\$92,813	\$104,789	\$118,212
\$52,562	\$78,789	\$97,382	\$108,391	\$88,166	\$88,943
\$132,037	\$134,780	\$129,470	\$120,474	\$126,790	\$130,564
\$388,246	\$374,296	\$359,011	\$321,678	\$319,745	\$337,719
<b>Financial Ratios</b>					
35.11%	35.33%	35.61%	34.24%	34.36%	36.04%
352.13%	302.76%	285.63%	269.90%	281.94%	280.50%
1.26	1.49	1.74	2.17	1.84	1.75
<b>Statistics</b>					
5.02	5.07	4.92	5.02	4.70	4.72
2,828	2,803	2,824	2,743	3,100	3,233
\$706,079	\$673,273	\$633,656	\$637,678	\$574,998	\$560,185
595	596	597	600	611	618
2,960	3,149	3,053	2,824	2,737	2,787



LCBO

CELEBRATE  
*seventy-five years*

68	Number of countries from which the LCBO bought products in 2001-02	4,195	Number of LCBO Retail staff who have passed the highest level of our three-level Product Knowledge Course to date	1,225,169	<i>Social Responsibility</i>
638	Number of products discounted by up to 20 per cent through the LCBO's Limited Time Offer program in 2001-02	1,965	Number of LCBO Retail staff who received training in 2001-02 to help prevent service to minors or people who appear intoxicated	76,929	Number refused service by LCBO employees in 2001-02
431	Number of products that carried a "value-add" bonus item in 2001-02	12,315	Number of LCBO Retail staff who have received responsible service training to date	4,101	Number of BYID tamper-resistant identification cards issued by the LCBO during 2001-02
1,596	Number of products with bonus AIR MILES Rewards in 2001-02	104,877	Number of calls handled by LCBO Infoline officers in fiscal 2001-02	19,620	Total number of BYID cards issued as of March 31, 2002
81	Percentage of domestic spirit prices made up of federal and provincial taxes, levies and mark-ups	5,660	Number of e-mails handled by LCBO Infoline officers in fiscal 2001-02	316,260	<i>Quality Assurance</i>
60	Percentage of domestic wine prices made up of federal and provincial taxes, levies and mark-ups	\$146,223	Amount donated by LCBO employees to the United Way in calendar 2001	332	Number of products rejected by Quality Assurance in 2001-02 for health concerns, consumer safety issues and other quality control problems
54	Percentage of domestic beer prices made up of federal and provincial taxes, levies and mark-ups	39	Percentage increase over previous year	374	Number of seized products tested for enforcement purposes by Quality Assurance in 2001-02
		\$276,289	Amount raised for charity through donation boxes in LCBO stores in calendar 2001 (Note: This does not include funds raised for local charities in January and June, or funds raised by the Royal Canadian Legion in November.)	3	Number of product recalls issued by Quality Assurance in 2001-02
<b><i>Our Employees</i></b>					
3,225	Number of permanent full-time LCBO employees				
3,294	Number of casual employees working in LCBO stores at fiscal year end				
135	Number of LCBO product consultants available to offer expert advice to customers				

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C E L E B R A T E

*seventy-five years*

For information about LCBO products and services,  
visit us on the Internet at:  
[www\\_lcbo\\_com](http://www_lcbo_com) and [www\\_vintages\\_com](http://www_vintages_com)